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The Small Business Adviser

**Getting The Most
From Employees**

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Ready For A Crisis**

RAISING CAPITAL

*The overpowering
need to find money
can lead to an
entrepreneur's
finest hours. Here's
how some spirited*



*business owners
mustered the
resources necessary
to meet the
financing challenges
they faced.*



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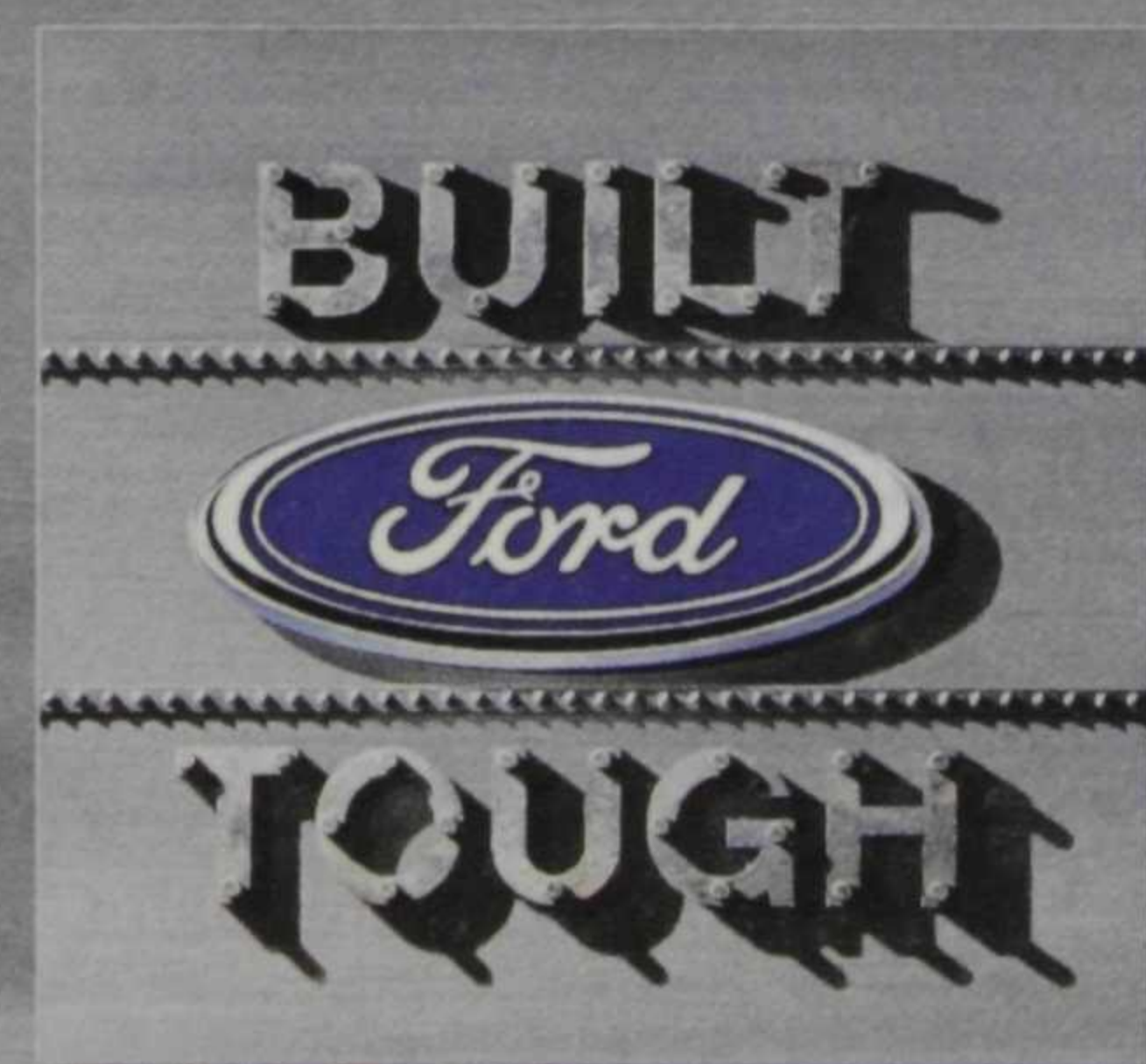
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PHOTO: T. MICHAEL KEZA

The quest for capital to launch their sports center led entrepreneurs Byron and Wendy Dyke to many sources—government loan programs, banks, and family members. Like other owners needing money, they found resourcefulness to be crucial. Cover Story, Page 18.



PHOTO: ©KEN TOUCHTON

Partners E. Diane White, right, and her mother, Dorothy White, retail African-inspired products. Making It, Page 14.

COVER STORY

18 Capital Ideas For Financing

The search for money can lead small-business owners from their darkest hour to their finest hour—if they're creative and resolute. Here are some owners' tactics, along with descriptions of various well-known—and some lesser-known—sources of capital.

21—A Strategy To Factor In

24—Getting A Bank

To Stick With You

26—Publications And Web Sites

MANAGING

28 Improving Worker Performance

Managers have a number of ways to accomplish it, from making sure an employee is in the right job to opening up career paths.

30—To Learn More

32 When A Customer Goes Bankrupt

Don't assume you'll never collect. The key to recovering at least some of what you're owed is to be ready to stake your claim.

33 Steering Through A Crisis

To recover from misfortune, a firm must be prepared, face the facts, and react properly.

35—Where To Get Help

TRAVEL

36 Health Coverage Overseas

Specialty insurance can help travelers cope with medical emergencies abroad.

FINANCE

38 Less Paperwork, More Bank Loans

A change in federal regulations is helping to encourage lending to small companies.

62 Small Business Financial Adviser

Solving cash-flow problems; ESOPs' pluses; deducting travel expenses; finding venture capital; investing in real estate.

FAMILY BUSINESS

42 If I Only Knew Then What I Know Now

Lessons learned later rather than sooner; anticipating retirement; rebuilding a board.

SMALL BUSINESS COMPUTING

49 The Latest Tools For The Job

This special report on a wide variety of exceptional computer systems and other hardware can help you choose the right equipment for your company.

50—A Glossary Of Computer Terms

MARKETING

58 Selling By The Book

Is there a catalog in your business's future? Here's help for deciding whether to take that challenging route.

59—Selling In Someone Else's Catalog

60—On-Line: The Future Of Catalogs?

61—Resources In Print

WHERE I STAND

76 On Telecommunications

Express your opinions on a variety of communications technologies and on issues that have arisen from their use.

POLL RESULTS

77 On The President

The president is insufficiently committed to issues important to small firms, said most respondents to the July Where I Stand poll.

VOL. 84, NO. 9

Editor's Note

When Fast Cash Isn't An Option

Have you ever been tempted to push the "fast cash" button on your bank's automated-teller machine when your intention had been to select a different option? Many entrepreneurs wish they had a fast-cash option when they need money to expand their businesses or just to keep their companies going. But that alternative seldom presents itself.

Typically, small-business owners must rely on their own initiative and perseverance to find the capital they need. Editor-at-Large Sharon Nelton, who wrote our cover story, discovered in her reporting some particularly interesting methods used by resourceful entrepreneurs to obtain financing.

Of course, says Nelton, they didn't get it overnight. "It takes months and sometimes years to get the money you need," she says. But, ultimately, creativity and planning will open doors, and, says Nelton, "someone with money will say yes."

We hope this article will inspire business owners nationwide who may think they've reached their wits' end in their quests for capital. The story begins on Page 18.



ILLUSTRATION: ALBERTO PACHECO



PHOTO: ©DEAN CONGER

Research unveiled a niche for Geoff and Lynn Wolf's catalog of distinctive equestrian products. *Marketing, Page 58.*

DEPARTMENTS

4 Letters

6 Entrepreneur's Notebook

8 Dateline: Washington

10 Managing Your Small Business

14 Making It

66 Classified Ads

69 Free-Spirited Enterprise

78 Direct Line

80 Editorial

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PHOTO: ©JIM CALLAWAY

Leo Hawk, chairman of Superior Metal Products, in Lima, Ohio, is among a number of family-business owners who share their thoughts this month on what they wish they had known sooner in their entrepreneurial careers. For their insights, see the article beginning on Page 42.

If your company has overcome adversity and is stronger today as a result, it might be a good candidate for honors in the Blue Chip Enterprise Initiative. The deadline for applications is Oct. 25, so don't delay. See Page 40 for more information on the program and guidelines on how to apply.

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation's Business

Letters

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Leave The Decisions To Business Owners



I recently read your article "The Perils Of Payroll Taxes" [Small Business Financial Adviser, July], and I must say that I was amazed at a comment attributed to Carolyn Stumpf, a spokeswoman for the Internal Revenue Service: "Lots of times the business is already bankrupt, but the owner is in denial. We make the difficult decisions the owner doesn't want to face."

I find this statement outrageous. How can any government agency, funded by taxpayers and tax-paying businesses, have the audacity to believe that it can make decisions for business owners?

Doing business in America is already hard enough without the IRS breathing down our necks all the time. Payroll taxes are one of the chief burdens faced by anyone in the accounting end of the business. Most of the employees and owners I know feel that their share of the tax burden is too high and unfair.

Stumpf's statement only proves what many people in this country already believe: Our government and the IRS in particular are out of control and need to be made answerable to the people once again.

Greg Ellis

Antioch, Calif.

Payroll-Tax Timing



Help! Don't tell me I have been doing my FUTA (Federal Unemployment Tax Act) taxes wrong for the past seven years!

According to your article "The Perils Of Payroll Taxes," FUTA taxes "are paid to the IRS once a year when you file Form 940, Employer's Annual Federal Unemployment Tax Return." We have made FUTA deposits *quarterly* and have done a reconciliation of the quarterly payments on the annual return.

If we are doing it wrong, please let us know.

Tenette P. Petelinkar

Office Manager

Shannon Wood Products, Inc.

Shannon, N.C.

[Editor's Note: You're doing it right. You can pay FUTA taxes once a year if they don't exceed \$100 for the year. If your total undeposited FUTA taxes do exceed \$100 in any quarter—including any FUTA tax under \$100 carried forward from an earlier quarter—you must make a deposit for that quarter.]

Electronic Transfers



"The Perils Of Payroll Taxes" was an interesting article, and I enjoyed reading it. However, you forgot one thing:

Effective Jan. 1, 1997, employers who made more than \$50,000 in payroll-tax deposits in 1995 must begin making their deposits by electronic transfer.

This hurts our small company, and it is another example of more government control and fewer rights for Americans.

Larry Campbell
General Manager
HS Electronics
Hialeah, Fla.

[Editor's note: The Internal Revenue Service sent notices recently to 1.2 million small and medium-

sized businesses alerting them to the electronic-tax-filing requirement, which was scheduled to take effect Jan. 1. Legislation recently passed by Congress and expected to be signed by President Clinton would delay the implementation date until July 1, 1997. See the October issue of Nation's Business for a full report.]

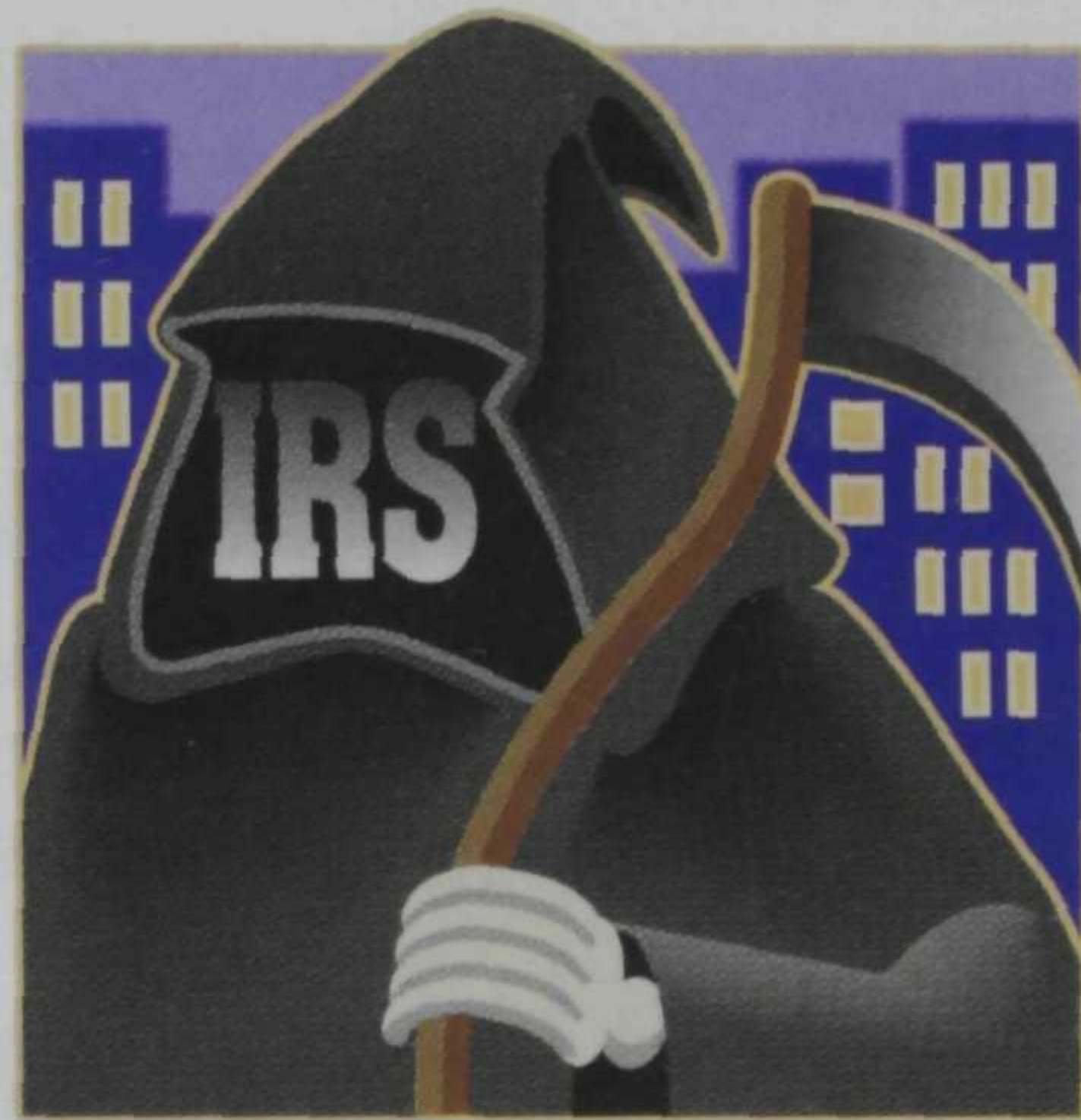
One Firm's Gag Order On Use Of Voice Mail



Voice mail is being abused by many workers around the country. Employees at my company find it increasingly difficult to return calls to customers because these customers keep their voice-mail recorders permanently switched on. Even if we return the call within minutes, we find voice mail greeting us.

Nothing is more frustrating or unproductive than to have to play "phone tag" with someone.

There have been times when, while giving my message to the mechanical voice, I was startled to hear the receiver lift up and a live voice start talking to me. Using voice mail to routinely screen calls is improper because it hampers normal com-



ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

munication between firms, which is the lifeblood of an economy.

We will never install voice mail at our company—it is a good idea gone terribly wrong. And I would suggest that CEOs investigate the use of voice mail in their companies. Try calling one of your departments—you may become frustrated.

*Joseph R. Ormig, President
The Aldon Co.
Waukegan, Ill.*

Speak Of The Devil— A Dubious Proposal



I found your article "Scam Artists Never Sleep" [July] interesting—especially because I received in today's mail not only your magazine but the letter I enclose here.

Here are excerpts from the letter, from self-described "members of the 'tenders



committee' appointed by the federal military government of Nigeria for contract awards/payment approval in the Nigeria National Petroleum Corporation":

"My colleagues and I have agreed that if your company can act as the beneficiary of this fund (\$21.5 million), you or your company will retain 30 percent of the total amount that will be transferred [abroad].

"Please be informed that the personalities involved in this transaction are top and influential government functionaries who would not like any form of exposure. ...Sir, if this proposal satisfies you...indicate your interest by sending to us complete and necessary documents (letterhead, invoice paper, bank account details)...in order to commence the relevant processes."

*Dave Goodson, President
Manor Research, Inc.
Hayward, Calif.*

[Editor's Note: Mr. Goodson is not the only reader who sent us a copy of this letter. We hope that running the excerpt will help alert our readers to this scam.]

Getting To The Roots Of Executive Suites



In "The Suite Life For Office Renters" [May], it was stated that the concept of executive suites was introduced in 1967 by HQ Business Centers.

For the record, the Koger organization opened its first building containing executive suites in late 1962, in Jacksonville, Fla. This cloverleaf structure—called the Kogerama—introduced the concept of centralized secretarial service and complete office services.

Since then, Koger has offered these same services in many of its office parks throughout the South and Southwest, and it now has such facilities in 15 cities.

*Wade L. Hampton
Vice President
Koger Equity, Inc.
Jacksonville, Fla.*

[Editor's Note: The article should have stated that HQ Business Centers was one of the first companies to offer executive suites.]

A Competitive Edge Through Cooperatives



Your July cover story, "The Little Guys Strike Back," was a very useful article. I am sure that many of your readers already are trying some of those 10 strategies to help small, independent retailers thrive.

At the National Cooperative Business Association, we can attest to the fact that strategy No. 3, "Form Cooperatives," works. Many of our members are purchasing and shared-service cooperatives that help their member businesses achieve economies of scale and the competitive edge necessary in today's marketplace.

In September, we will be holding in Chicago our second annual Purchasing Cooperative Conference to bring these members together for discussions on applying the benefits of cooperatives to their businesses.

For many years, we have provided information and support to businesses interested in using the cooperative model to enhance their bottom line. We would be happy to provide information for your readers, also. They can call (202) 638-6222.

*Leta Mach
Director of Communications
National Cooperative Business Association
Washington, D.C.*

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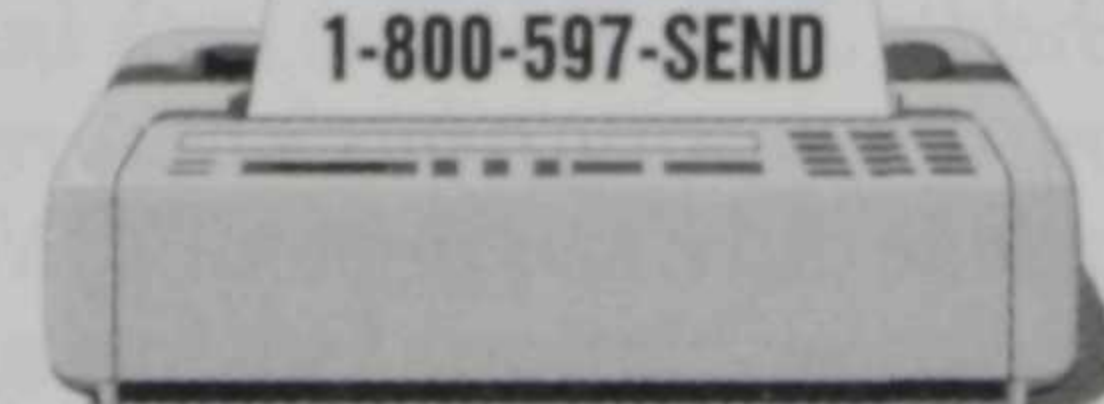
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ENTREPRENEUR'S NOTEBOOK

By John Gottfried

Giving The Media Food For Thought

In New York City, an annual advertising budget of \$1,000 doesn't go far. Truth be told, when you're looking to buy ad space or hire an advertising agency, it doesn't go anywhere.

Yet \$1,000 a year was roughly what my partners, Ned Visser and Andrew Arons, and I had planned as an advertising budget for the three years after we started our business, The Gourmet Garage.

We knew that opening to the public our fine-food warehouse, which previously had been a wholesaler only to New York's top restaurants and chefs, would work. Still, competing for the public's attention against some of the biggest advertisers in the world seemed utterly futile.

Many businesses are in a similar position. The best way to level the playing field, I believe, is through creative use of publicity and promotions. In our case, instead of advertising, we decided to hire a publicist to tell our story to the media.

The cost was considerably more than what we had earmarked for advertising, although a lot less than what it would have taken to mount an effective advertising campaign. The publicist immediately landed us an article in *The New York Times*, which helped bring 1,200 people through the door on the day we opened the warehouse to the public. The profits were so good that we were able to retain the publicist on a permanent basis.

The proof of the success of this strategy is in the newsprint and TV coverage. We have been written about in publications from Argentina to Norway, appeared numerous times on New York television and radio stations, done some national TV appearances, and have gotten extensive coverage in the food section of *The Times*.

Since 1992, when we opened, we have quadrupled our space, added a branch store, gone from six to 65 employees, increased sales tenfold, and become one of the city's most visible retailers. Our

growth has had much to do with the ability to attract media attention.

Effective communication with the media—whether through a publicist or on

when (and sometimes why and how)—along with the name and phone number of a contact person.

Be creative, charming, and interesting. Reporters receive mountains of press releases. Make yours memorable. "People Purple Eaters" was the headline of one of our one-page releases that got us national coverage. (The release was about the popularity of purple vegetables.)

Understand what reporters need and what makes a good story. The news media tend to cover what's new. If you have nothing new to announce, look for trends you can identify or can comment on.

Be responsive and follow up. Return reporters' phone calls promptly. Reporters who are able to reach you when they need help completing a story are more likely to respond positively when you need them.

Know your next step. Use the coverage you get to attract even more coverage, which tends to have an exponential impact on both the public and the media.

When choosing a publicist, look for someone with experience who understands what writers want and need; who has the necessary time and energy; and who knows that his or her job is to help you identify your stories and then to market them to the media. Avoid publicists who believe that public relations and media relations are about "doing lunch." **NB**



PHOTO: TED HARDIN

Effective communication with the media led to a bumper crop of coverage for John Gottfried's The Gourmet Garage.

your own—takes a clear understanding of both your business and the media's. Here's what you need to do:

Recognize that you have a story to tell. Every business has a tale, whether it's about how the company started, its employees, a problem it encountered and solved, or what it makes or does.

Know the message you want to communicate, and distill it into a few words. For example: "Fine-food wholesaler to New York's top chefs now open to the public."

Sell only one story at a time. Press releases filled with lots of different story ideas don't work. Focus on a single event, idea, or subject.

Learn how to write a press release. Always include answers to journalism's key questions—who, what, where, and

John Gottfried is co-founder of The Gourmet Garage, in New York City. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

WHAT I LEARNED

If your advertising budget comes up short, creative press releases can help spread the word about your business.



If you think running a small business is challenging, try to remember whether the schnitzel you ate a month ago was for business or pleasure.

If you've been using a personal card to pay for all your business expenses, you owe it to yourself to find out more about a Visa® Business card. Not only does it save a lot of headaches by keeping your business expenses separate, it's tailored to meet your business needs with special features such as corporate liability waiver and primary auto rental insurance nationwide. Moreover, it's accepted at over 12 million places worldwide, including that schnitzel joint you may or may not have taken your client to. So, wherever your business takes you, take your Visa Business card. Because now more than ever, Visa means business.

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Dateline: Washington

Business news in brief from the nation's capital.

WELFARE

Welfare Overhaul Likely To Please Business Readers

The landmark overhaul of the welfare system passed by Congress in August and that President Clinton said he would sign is likely to please many readers of *Nation's Business*.

A Where I Stand poll of the magazine's readers conducted in June 1995 found that 91 percent of the respondents agreed that the states, not the federal government, should run welfare programs. In addition, 93 percent thought that two years was either "too long" a period or "about right" for welfare recipients to be given to find work after their first benefit payments.

The measure sent to the president would turn over to the states most aspects of administering welfare. It also would require most able-bodied adults to find work within two years of receiving benefits and would limit lifetime welfare benefits to five years.

The Congressional Budget Office estimates that the welfare-reform legislation would save \$54.1 billion in federal spending over six years.

—David Warner

HEALTH CARE



If Medicare Isn't Harnessed...

Unless Congress reduces the growth rate of Medicare spending, payroll taxes that support the program will have to be raised immediately to keep the Medicare Hospital Insurance Trust Fund solvent for the next 25 years, according to the fund's trustees. The figures below illustrate employers' annual Medicare tax bills at the current 1.45 percent of payroll and at the 2.43 percent that would be needed to keep the fund solvent, according to the trustees' latest report, up from the 2.12 percent estimate of a year ago. The tax amounts are calculated for companies whose employees earn an average of \$30,000 a year. (The rate applied to an employer's payroll is also applied to each employee's total wages.)

Number Of Employees Earning \$30,000 A Year	Current Rate 1.45%	Rate To Stay Solvent Without Reforms 2.43%
5	\$2,175	\$3,645
10	\$4,350	\$7,290
25	\$10,875	\$18,225
50	\$21,750	\$36,450
100	\$43,500	\$72,900
250	\$108,750	\$182,250
500	\$217,500	\$364,500

SOURCE: CALCULATIONS BY U.S. CHAMBER OF COMMERCE BASED ON MEDICARE TRUSTEES REPORT FOR JUNE 1996

FOR THE RECORD

■ **The minimum-wage bill** that was approved by Congress and that President Clinton said he would sign would increase the wage floor by 90 cents an hour, but it also would provide business with about \$10 billion in tax relief over 10 years.

A separate tax-related bill, enacted just before Congress adjourned for the presidential nominating conventions, would increase taxpayers' rights in disputes with the Internal Revenue Service.

The minimum-wage bill would boost the current \$4.25 hourly pay requirement to \$4.75 on Oct. 1 and to \$5.15 on Sept. 1, 1997. Important tax breaks for small business include renewal of several expired tax credits and liberalization of some rules governing depreciation, notably increasing gradually from the current \$17,500 to \$25,000 in 2003 the amount of equipment purchases that small-business owners can deduct immediately rather than depreciate over the equipment's useful life. The bill also would change some pension rules.

Details on how the tax and pension changes would affect small firms will be reported in the October issue of *Nation's Business*.

■ **A health-insurance-reform bill** that was expected to be enacted in August would raise the amount of health-insurance premiums that the self-employed can deduct from their income for tax purposes. The percentages would go from the current 30 percent to 40 percent in 1997, 45 percent in 1998, 50 percent in 2003, 60 percent in 2004, 70 percent in 2005, and 80 percent in 2006 and thereafter.

The measure also would permit small-business participation in a four-year trial program of "medical savings accounts." Under the program, up to 750,000 people in high-deductible health-insurance plans could make tax-deductible contributions to a special savings account. The contributions could be used to pay medical bills. When eligibility rules are set, they will be reported in *Nation's Business*.

■ **Business-backed labor legislation** that would have given workers a greater voice in some day-to-day management decisions was vetoed by President Clinton in late July.

The Teamwork for Employees and Management Act, commonly known as the TEAM Act, would have amended the 1935 National Labor Relations Act. It would have let nonunion employers establish self-directed employee teams to address key workplace issues such as scheduling. The legislation would not have applied to unionized companies and would have prohibited employee teams from collectively bargaining for wages and benefits.

In vetoing the bill July 30, Clinton sided with the AFL-CIO, which saw the TEAM Act as a threat to its workplace influence.

It's unlikely that Congress will override the TEAM Act veto. The measure was approved 53-46 by the Senate and 221-202 by the House, well below the two-thirds majorities needed to override a veto. **NB**

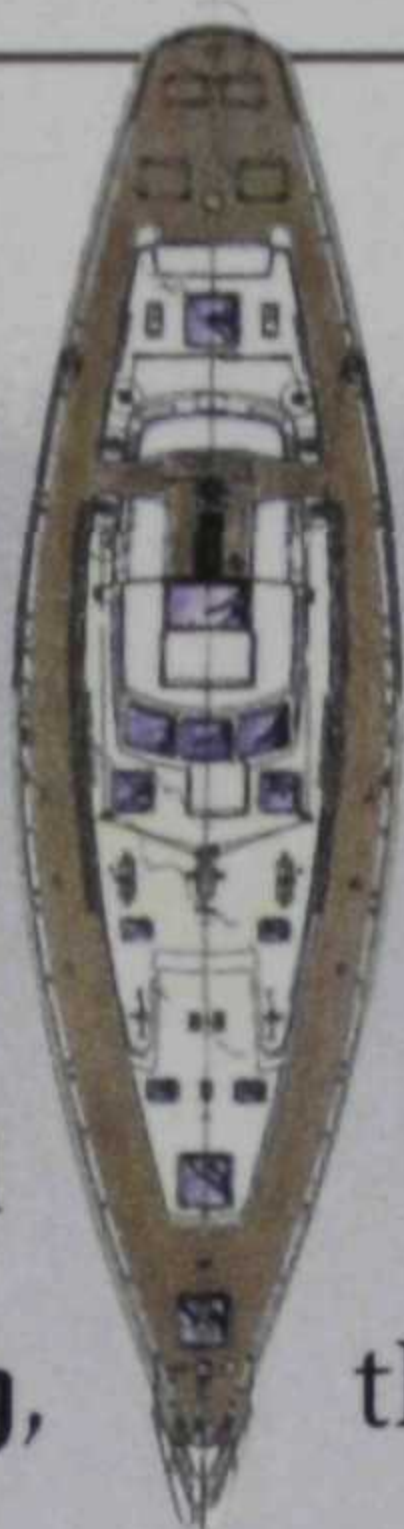


Wild Thing

"Thanks to Roadway Express, our shipment is sailing the oceans."

The murmur of blue
The gentle rise and fall of the bow. The
the payoff for the craftsmen of Ted
on the ocean.

When Ted Hood needed seven, 400-pound
make the seventy-foot yacht, **Wild Thing**,
Hardwoods of Wilmington, North Carolina.

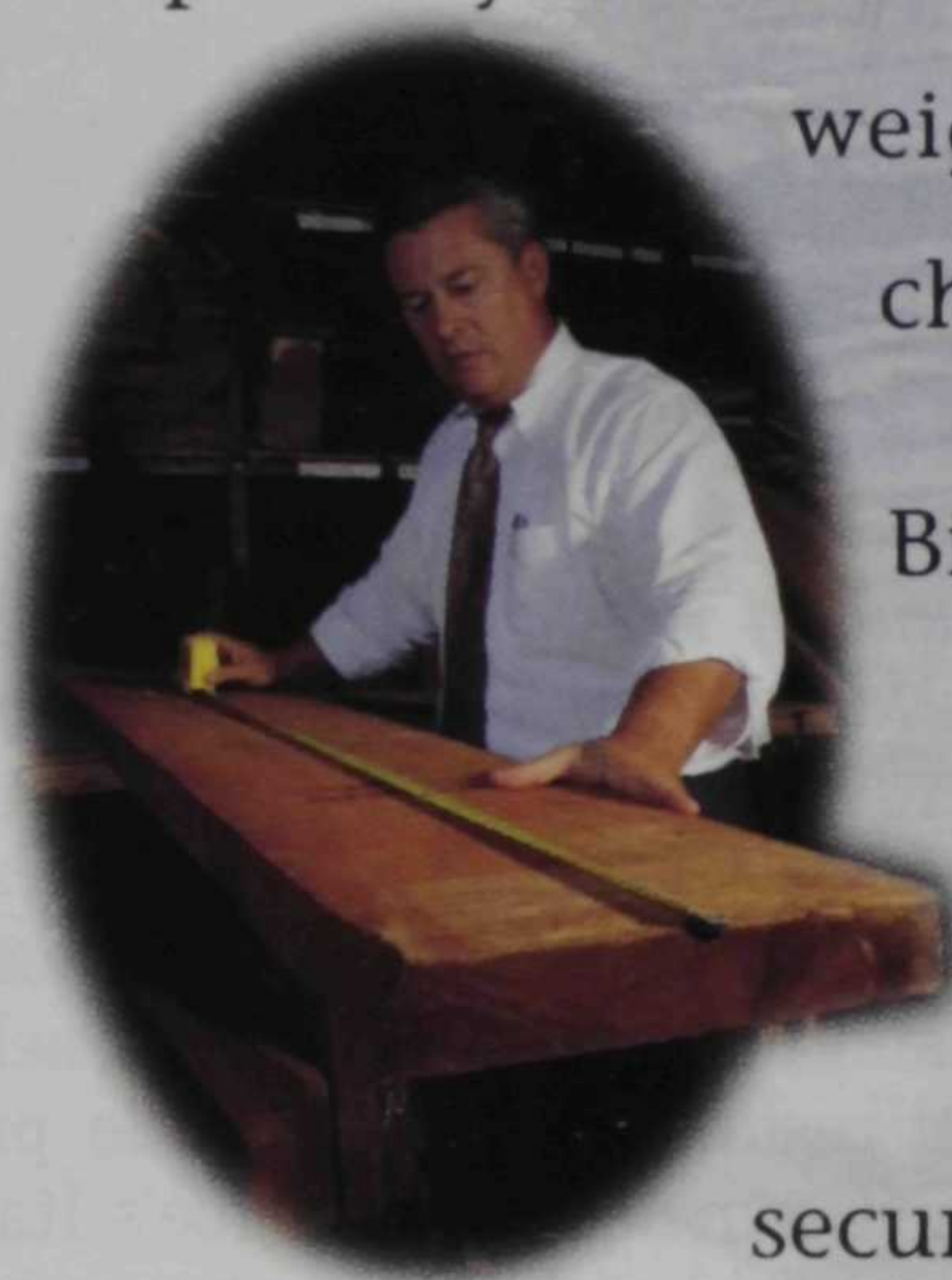


Caribbean seas sliding past the hull.
wind whistling in the rigging. This is
Hood Yacht Builders – a work of art

mahogany beams to
they turned to Olyve



Bill and Nancy Mewborn of Olyve have supplied
specialty hardwoods to the world's leading yacht builders for years. The size and
weight of each piece made it **a tough loading job**, but a
challenge Bill knew he could take to Roadway Express.

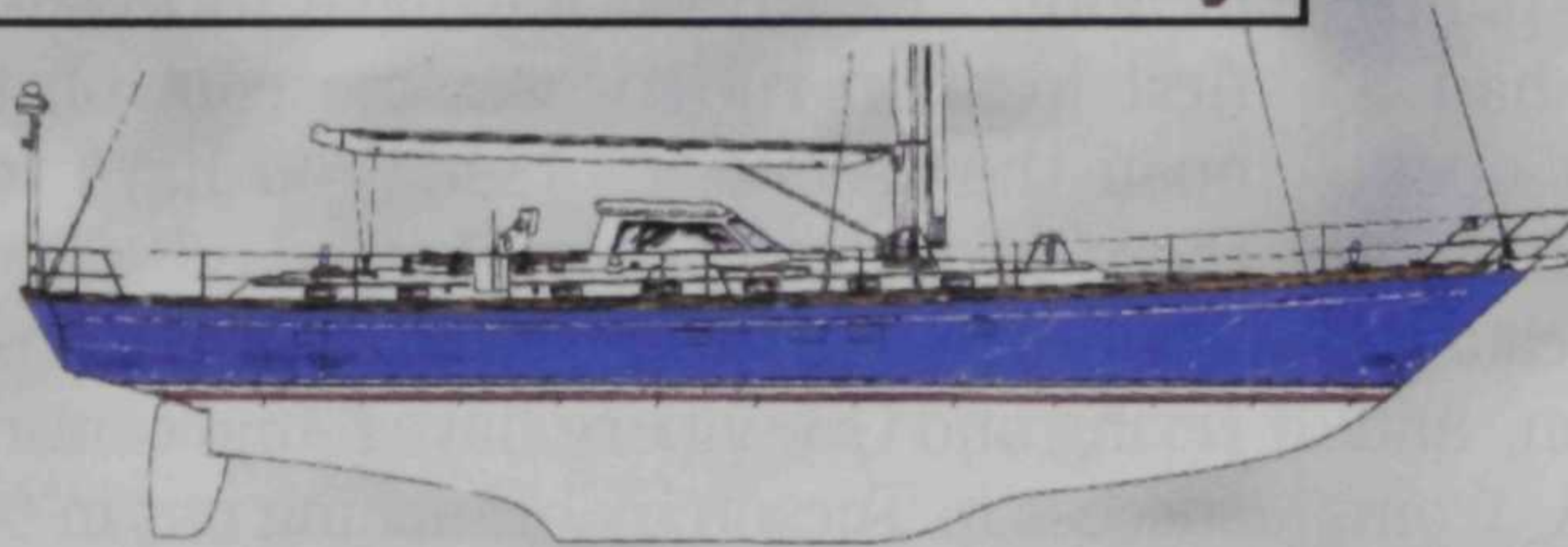


Bill called John Lomas, the sales representative at
Roadway's local service center. John suggested a
way to package and load the beams. Then the
Roadway driver, Pete Andrews, helped load and
secure the beams to ensure safe transit. Bill said, "The



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Managing Your Small Business

The difficulties of branching out at a distance; a program for fostering artistry; stretching the workday.

By Roberta Maynard

EXPANSION

Entering A New Market? Be Aware Of The Pitfalls

Seasoned restaurateurs Ed Irving and Bob Greenberg know a thing or two about how *not* to expand into a new market. The two, who are partners in eegee's deli restaurants, had been in business in Tucson, Ariz., for 15 years when they branched out to Phoenix.

They had started their business selling Italian ice from a truck in Tucson and had expanded to 16 area locations. Irving and Greenberg now employ nearly 500 people and have annual revenues of \$11 million. But their efforts back in the mid-1980s to expand into a second city failed, leaving them in debt.

In retrospect, says Irving, several factors doomed the effort. The higher cost of doing business in a much larger city was one dimension the partners overlooked. "We didn't have a good handle on the bottom line," says Irving. "In Phoenix, we had higher labor and real-estate costs. And the cost of marketing was four times what we were used to—we hadn't even considered that."

Further, in Phoenix, Irving and Greenberg had fewer restaurants in a larger geographic area, so the impact in the new market wasn't as great as the partners had hoped. "Later, we realized we had a grass-roots business in Tucson that we didn't have in Phoenix," says Irving.

And they made the mistake of expanding too rapidly. "We thought we had a formula [for a successful restaurant operation], and we moved too fast," says Irving. Opening six stores in five years caused problems with cash flow, distribution, and management. Shipping ingredients from



PHOTO: ©TIM FULLER

Deli restaurant owners Ed Irving, left, and Bob Greenberg found there's more than one way to expand a business when they had to close the Phoenix branches of their Tucson-based chain.

Tucson led to uneven product quality.

Perhaps the most significant factor in the failure, says Irving, was that neither partner was willing to move to Phoenix to oversee the new operation. "You have to be willing to send the best people to the new location," he says. "You have to make the first location run by remote control, then open the second yourself. You have to be there to open the door every day."

Despite the failure of the expansion, Irving and Greenberg have found continued success in Tucson by branching out in other

ways. They have established wholesale, catering, and bakery divisions that sell to other local restaurants and provide products for their own delis. And eegee's Italian ices are now sold at local sporting events and at college student unions.

These outside sales, which have grown quickly since the partners recently made them a priority, eventually may overtake the restaurant operation, Irving says.

From it all, the two have learned that there's more than one way to expand a business.

CUSTOMER SERVICE

Guarantees Can Create A Positive Impression

Offering a guarantee of satisfaction is one of the most effective ways to demonstrate the reliability of your product or service, according to Rath & Strong, a management consulting firm in Lexington, Mass.

The potential for substantial positive impact from such a guarantee is high under any of the following conditions:

- The quality of service within your

industry is generally held in poor regard.

- The negative consequences of unsatisfactory service are high.

- The price of your product or service is relatively high.

- The customers' expertise and experience with the product or service are low.

- Your business is strongly affected by referral and word of mouth.

- You depend on repeat business.

To be effective, according to Rath & Strong, a guarantee should be:

- Unconditional, with no fine-print exclusions.

- Easy to understand and communicate so that employees and customers have the same idea of what it covers.

- Meaningful, covering service elements important to the customer.

- Reasonably easy to invoke.

A clear, effective guarantee can give a company an edge over its competitors, Rath & Strong reports. Chances are that if you make a promise, you'll strive to keep it. ■

Words to live by



*"If you keep making that face,
it will freeze that way."*



"Don't talk with food in your mouth."



"You can be a rock star after you graduate."



*"An insurance coverage pool can make a
sink-or-swim difference for some small firms."*



*"I wouldn't wash that red T-shirt
with your white underwear."*

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COMMUNITY TIES

Helping Young Artists Turns Out Picture-Perfect

A program that teams small businesses with local high-school art departments has made the grade for both students and the program's sponsor, The Great Frame Up, a franchised chain of art and picture-framing stores that is based in Franklin Park, Ill.

The company's goals were to soften the blows of budget cuts for art departments by donating materials and to give art students an opportunity to exhibit their work. Meanwhile, The Great Frame Up hoped that the company and its franchisees would enjoy enthusiastic community response and garner local publicity.

In the initiative's first school year, 1995-96, all these goals were met, says the program's national coordinator, Tara McGrath.

Each of the 46 participating franchisees provided mat board throughout the year to its adopted school. In the spring, the franchisees used their stores to host art shows featuring the students' work. Each franchisee paid the company \$700 to participate. The funds were used for administrative costs. Franchisees also donated the more than 28,000 pounds of mat board given to students and \$20,000 in cash awards for the best-in-show artists.

The company itself gave the students 22,000 portfolio cases and 12,000 T-shirts; it also gave each student 10 show invitations for family members and friends. More than 7,000 people attended the



PHOTO: ©DAVID SUTTON

Students Lila Freeman and Justin Garrick, seated, with—behind the art—The Great Frame Up's art-program coordinator, Tara McGrath, left, and Evanston Township (Ill.) High School teacher Marla Gerber-Seibold.

shows; one store had a turnout of 300.

Careful planning is the key to making a program of this type work, says McGrath. She began in 1993 by conducting sessions with focus groups to learn how best to help the art departments. The next step, which she says was critical for fine-tuning the effort, was a test program at three schools in three cities. She and her staff held training sessions early last year to help stores prepare for the shows; the franchisor coordinated all meetings.

The company, which had revenues of

\$34 million last year, spent \$220,000 on the program last year, including franchisees' contributions. Those dollars went much further than they would have if they had been used to buy advertising, McGrath says.

"It's not a program designed to suddenly boost sales by 20 percent," says McGrath. "There's a movement away from advertising and toward public relations as a way to keep costs down. This is a program that we can do nationwide and that we can be known for."

For the 1996-97 school year, the program will help support at least 150 high schools nationwide, McGrath says.

The company found the experience so rewarding, she says, that it is considering organizing a national art show for students' work, and next year it may coordinate with art colleges to have recruiters attend the local art shows.

WORKPLACE SAFETY

Don't Let Your Employees Become Working Stiffs

Repetitive-motion injuries—including back strain and carpal tunnel syndrome—can be significantly reduced by simply allowing workers to stretch their muscles periodically throughout the day, according to Mary Jo Drcar, director of occupational-safety training for Zee Service Co. The Willoughby, Ohio, firm provides first-aid supplies and safety training.

Regular stretching—which warms tight muscles, keeping them flexible—benefits not just workers who have to bend, twist, and lift heavy objects on the job but also those who sit for long periods in the same position. Stretching is important all day long: at the beginning of a shift, when fresh workers are more likely to hurt themselves, and during a break later on, when tiredness has set in.

To start a simple safety program, Drcar says, a company should engage a knowl-

edgeable person—such as a physical therapist, medical professional, or trainer—to address the group initially and to demonstrate stretches that are appropriate for different types of jobs.

The trainer should discuss the consequences of a serious injury as well as basic suggestions to follow, such as starting gradually, stretching regularly, and stopping if pain is felt, Drcar says.

After the initial training, managers can provide periodic oral and posted reminders. They should also evaluate their programs annually, Drcar recommends.

Commitment by top managers, she says, is the key to success for such a program. Workers must feel that taking brief stretching breaks as required—when they feel stiff—is not only accepted but encouraged.

Because each employee is different, Drcar recommends against a regimented program that allows breaks only at set times.

NB TIP

Gift Lists

Do you have a long list of customers to thank but a budget that limits the amount you can spend on gifts? One solution is to make A and B lists, says H. Ted Olson, president of the Promotional Products Association, in Irving, Texas. Then, he says, you can upgrade the gifts for your best customers and economize on the others. If your gift plans include 1997 calendars imprinted with your company name, now is the time to order to avoid delays and extra charges during the end-of-the-year rush.

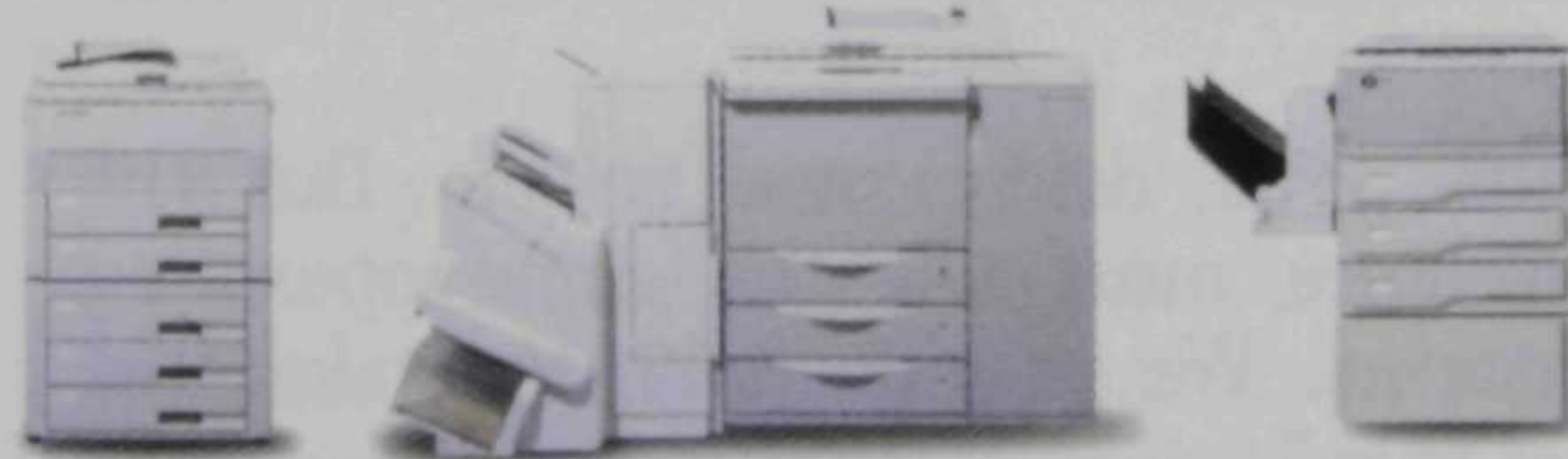


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Making It

Growing businesses share their experiences in creating and marketing new products and services.

Plugging A Software Gap

By Roberta Reynes

In 1989, Robert Angelo could have been content to hold on to what he had achieved. Starting out as an engineer, he had risen through computer-industry management to become, at age 42, chief operating officer of Phoenix Technologies, a software maker in Santa Clara, Calif.

But Angelo had taken risks during his career, so he wasn't averse to taking another one. Beseeched by portable-computer makers for software-engineering

young company jumped in to fill the void.

Today, SystemSoft, in Natick, Mass., offers about a dozen products that are designed, like all system software, to ensure compatibility between different kinds of personal-computer hardware and common computer-operating systems, such as Windows 95 and DOS.

Paul Sereiko, the company's vice president for corporate marketing, explains: "Every computer design involves different

card-sized PC cards are inserted into portable computers to add capabilities, such as a fax modem or additional data storage. SystemSoft's products ensure that any of the 500 PC cards on the market work with different computers.

Meeting the demand for easier-to-use machines is paying off for SystemSoft. The company has attracted a list of world-class customers, including Microsoft, Compaq, Digital Equipment, and Intel. SystemSoft has posted annual growth exceeding 50 percent for six years. Revenues for the 160-employee business hit \$24.6 million in fiscal 1996, and profits were \$3.6 million. The company went public in August 1994 at \$5.50.

Since then the stock has split and was selling recently at about \$20.

While SystemSoft is best known for its PC card software, that could change quickly as the company exploits new markets. Products it developed for portable computers are applicable to huge emerging markets such as smart cellular phones and interactive television.

Also, the company in June began shipping SystemWizard, which diagnoses and resolves common problems consumers have with their desktop computers. Users whose PCs contain SystemWizard can click on its icon, then click on one of several boxes indicating parts of the computer. For example, if you aren't getting sound on your "Lion King" game, you hit "speaker."

Then SystemWizard asks you questions to resolve the problem.

The software should alleviate an intense and growing headache for the computer industry: Frustrated users place an estimated 200 million calls a year to manufacturers' technical-support cen-



PHOTO: ©RICK FRIEDMAN—BLACK STAR

SystemWizard software resolves common problems that users have with their desktop computers, explains Robert Angelo, president and CEO of SystemSoft Corp.

services that Phoenix didn't offer, he and three other employees left to found SystemSoft Corp. in 1990. When its first consulting assignments unearthed a gap in system-software products in the nascent portable-computer market, the

chips, disk drives, and so on. But the machines must use the same operating systems. We provide links to make that possible."

Sixty-five percent of SystemSoft's revenues come from PC card software. Credit-

ters, costing the industry \$4 billion.

SystemWizard builds on PC card software technology, but the desktop market is five times bigger than the portable business, according to industry analysts. Paul Bloom, an analyst with Volpe, Welty & Co., an investment bank in San Francisco, says that SystemSoft's new thrust could boost its earnings by 50 to 100 percent annually "for the next several years."

Angelo describes SystemSoft as an "engineer-to-engineer" company. If Compaq is developing a new computer, for instance, SystemSoft engineers work side by side

with Compaq's engineers to customize the software to their exact needs. To Angelo, this relationship is the "heart of what we do. It bonds us to the OEMs [original-equipment manufacturers] we work with."

Today, as SystemSoft's president, CEO, and chairman, Angelo finds that his toughest challenge is keeping pace with rapidly changing technology. Technical and political shifts can occur overnight at giant alliance partners. "If you don't pay attention to even the subtlest trend, it can put a small company out of business," he warns.

As low-tech as it sounds, the company

cafeteria is a focal point for intelligence gathering. Angelo says that "you can sit down at any two or three tables and get updated over a sandwich on the latest technology being applied for Apple or Compaq."

"And because, say, Hewlett-Packard engineers may be working here, you find out what's going on in their company, the hottest technologies, what they think the trends are."

Roberta Reynes is a free-lance writer in Spencertown, N.Y.

Abuzz With Business

By J. Tol Broome Jr.

At the top of Brushy Mountain, in scenic western North Carolina near Moravian Falls, you find one of the largest little companies of its type in the country. It's Brushy Mountain Bee Farm, Inc., a beekeeping-equipment firm that owners Steve and Sandy Forrest started in their basement 20 years ago. The company now has \$1.3 million in revenues, employs 11, and sells to 50,000 customers all over the world, primarily through a mail-order catalog produced every year.

"We were both schoolteachers and wanted to start a part-time business," says Sandy. They got into beekeeping because one of Steve's colleagues was in it and it "sounded interesting," she says.

The Forrests were part-time beekeepers at first but shifted into marketing beekeeping supplies full time in 1983. Says Steve: "We saw a niche that was available to sell to other part-time beekeepers."

There are three levels of beekeepers, according to Kim Flottum, editor of *Beeculture* magazine, in Medina, Ohio. A commercial beekeeper is one who manages more than 1,200 colonies—or hives—of bees, with each colony containing about 30,000 bees. A sideler, or part-timer, keeps 200 to 1,200 hives. A hobbyist keeps no more than 200 colonies.

"Our place in the market is to try to sell to the hobbyist at close to commercial prices," says Steve. Brushy Mountain, Flottum says, is one of the four largest beekeeping suppliers in the U.S.

With slogans like "1-800-BEESWAX, give us a buzz," and "Looking for a buzz? Try beekeeping," the Forrests have succeeded in reaching their target market. Products sold in 1995 included 30,000 pounds of beeswax, 100,000 frames for beehives, protective clothing and equipment, containers for honey,

bee T-shirts, videos on beekeeping, and, of course, bees.

As the business has expanded, the Forrests have added two warehouses. The company office and a small retail store are

production alone has declined 9 percent since 1993.

The primary cause of the downturn has been a proliferation of the tiny varroa mite, which has been killing bees all over the world. And while suppliers such as Brushy Mountain now sell products that protect bees from the mites, Steve says the pests have killed the operations of many small beekeepers.

Partly in response to the mite problem, the Forrests have expanded into supplies for candlemaking, an ancillary business on the rise among beekeepers. About 30 percent of the company's sales come from candlemaking supplies; beeswax is the biggest seller. "People seem to want natural, beeswax candles," says Steve.

What accounts for Brushy Mountain's growth? Steve points to four key strengths:

- Emphasis on education and support of customers.

- A commitment to sell the best equipment and supplies the market has to offer.

- Prompt delivery.

- A state-of-the-art, bar-code-based system for inventory management and shipping.

"The strongest part of our business is our computer system," says Steve, who forecasts an even greater emphasis on technology. Brushy Mountain will soon have a home page on the Internet's World Wide Web to advertise its products. "We will continue to seek ways," he says, "to integrate

technological advancements into our business that should continue to give us a competitive advantage."

J. Tol Broome Jr. is a free-lance writer in Greensboro, N.C.



PHOTO: ©NANCY PIERCE

Selling beekeeping supplies is a honey of a business for Sandy and Steve Forrest.

in a 200-year-old, restored log cabin.

Brushy Mountain's 1995 sales, up about 5 percent from 1994's, were particularly impressive given an industrywide slump last year that saw worldwide production of honey drop 25 percent from 1994. U.S.



MAKING IT

Cultural Connections

By Roberta Maynard

It was a friend's frustrating search for an African-American doll that caused E. Diane White, then a financial analyst at the World Bank in Washington, D.C., to become interested in retailing. But her journey into entrepreneurship took several years.

White has a master's degree in international studies from Johns Hopkins University in Baltimore and an MBA from Harvard University. Before she undertook the MBA program, she had viewed people who didn't have 9-to-5 jobs as somewhat suspect. Her studies at Harvard changed her view of work styles and led her to see business opportunities in everyday events.

For example, before getting her MBA, she says, the doll incident would have been a brief subject of conversation, talked about and forgotten. "Now, I saw it as a market failure. I thought, 'If my friend had trouble finding goods that reflected black heritage, maybe others did, too.'" That led White to think about starting a business.

Her idea was to open an "Afrocentric" store—one with African-inspired products, but adapted for a Western market: "Sculpture made into a candleholder, African cloth made into a pillow. Taking traditional items and weaving them into lifestyles, making them functional."

She found a gift store specializing in items from Africa and persuaded the owner to let her work—for free—evenings and weekends. She began going to trade shows, festivals, and craft shows, where she collected contemporary African products. When she had a living room full of items, she began looking for retail space. She and a friend put together \$12,000 and, in November 1989, opened a 300-square-foot store in a suburban mall in Maryland's Prince Georges County. They called their shop Blackberry.

An incubation program offered by the mall to help start-up businesses gave them discounted rent and paid for interior decoration of the store. By the end of December, White and her partner had made back their investment and more.

In 1992, she opened a second store, a 500-square-foot space in the upscale Pentagon City mall, in Arlington, Va. White had been in the new location for just six weeks, on a month-to-month lease, when the mall

management told her that despite Blackberry's strong sales, its products weren't sufficiently upscale and White would have to leave.

"It was the first test of the little company," White says. "And we decided not to go quietly away." She decided her only hope of going up against the mall's management company was through a public-relations effort. White told her customers of the predicament, and they connected her with media people who might be interested in her story. Almost overnight, she got cover-

time. She and her partner went their separate ways, and her mother, Dorothy White, became her new partner.

"When I started, it was a hobby," Diane White recalls. "As I got into it, the vision of it became so compelling . . . I knew if I got to be 65 and hadn't [pursued that vision full time], I would regret it."

White plans to seek private investors for capital to expand to the top 10 U.S. markets for blacks. Her goal is for Blackberry to be a national chain with \$100 million in annual revenues. She hopes to expand her offerings with furniture and perhaps more food items. Top sellers now include books, ceramics, and greeting cards.

White attributes much of her success to her focus on building networks. She is on the small-stores board of directors of the



PHOTO: ©KEN TOUCHTON

Recognizing an untapped market inspired E. Diane White, right, to open a chain of "Afrocentric" stores, including this one in Arlington, Va. She and her mother, Dorothy White, are partners.

age on Washington's black radio stations, on local TV, and in several newspapers. Eventually, the mall let her stay.

The barrage of publicity resulted in her being noticed by department-store chain Woodward & Lothrop, which led to an invitation to open small stores in two of the company's locations.

She accepted, but when the chain went out of business last year, she lost the two locations, causing a substantial drop in her revenues, which had approached \$1 million in 1995. But her success in operating shops in a major retailer's stores won her a slice of retail heaven: a 500-square-foot space on the main floor of Macy's in Manhattan.

After four years in business, White had begun to think of herself as an entrepreneur. She decided to pursue retail full

Washington-based National Retail Federation and is a member of the Social Venture Network, an organization of 500 socially minded business leaders and entrepreneurs, based in San Francisco. Particularly important, she says, is her willingness to talk to the big guns in retailing and to learn from them. "The major players will talk to you if you ask them," she says.

White traded a career and a steady income at the World Bank for short-term leases and cash-flow concerns. Does she miss her former life?

"As a 9-to-5 job, it's a good place to work," she says of the World Bank. But as an entrepreneur, she says, she has "the power to have a vision and execute it. If you're lucky, you can have a few things in life that you really feel passionate about."

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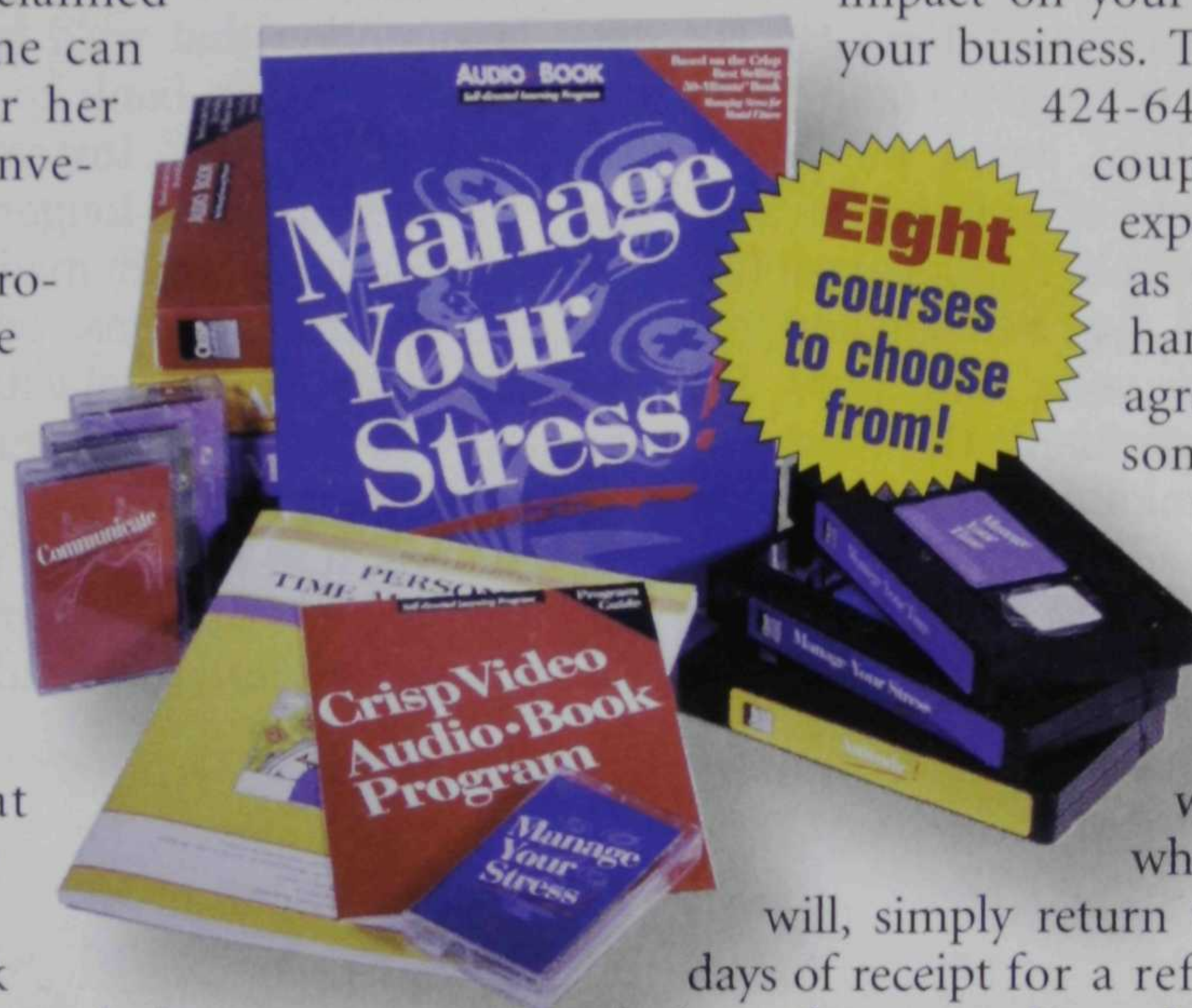
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COVER STORY

Capital Ideas For Financing

By Sharon Nelton

David M. Dooley Sr. says his company faced "the economic kiss of death" in January 1995. His largest supplier refused further credit unless Seasafe, Inc., could pay down its then-current debt of \$1.6 million at a rate of \$50,000 per week. A fiberglass fabricator in Lafayette, La., Seasafe had just had an unprofitable year, and, says Dooley, the company president, the business was "virtually unbankable."

Timothy L. Rashleger, co-owner of Milltronics Manufacturing Co., then in Chanhassen, Minn., got a similar shock on a

visit to his bank. "In our suits and ties, [my partner] and I went downtown under the assumption that we'd been invited to sign papers at the bank to renew our line of credit," he says. Instead, the two learned that the bank no longer wanted to finance the company, which made computer numerical-control systems, which command the movements of metal-cutting machines.

"The fact that we had never missed a payment, were not borrowing more money, and had taken major steps in the company to manage our resources was not important to [the lenders]," says Rash-

leger. "Simply put, our line of \$1 million was due in 90 days."

Capital. It's what almost every business owner at some point desperately needs but doesn't have—especially in the early years, when companies are starved for start-up capital or funds for expansion. And that's often when financial institutions are the least likely to provide help.

The overpowering need to find money leads to some business owners' finest hours—because getting financing requires every ounce of creativity and resourcefulness they can muster. Here



PHOTO: ©TIM MUELLER

Improving management of receivables helped David M. Dooley Sr. steer Seasafe, Inc., through a credit crisis with its largest supplier.

The search for money can lead small-business owners from their darkest hour to their finest hour—if they're creative and resolute.



are the stories of how some of them got the capital they needed.

Overcoming "Codependency"

As David Dooley puts it, he and the supplier to which he owed the \$1.6 million had become "codependent" in the 10 years since Dooley had bought Seasafe. His company makes fiberglass platforms and walkways for industrial use, plus "cable trays"—ladder-shaped conduits for electrical cable. Seasafe assembled its products from components created by the supplier in a molding process known as pultrusion.

Dooley knew that to be competitive, he should bring the pultrusion process in-house. That would cut out the costs of a middleman, reduce overhead, and improve inventory control. But doing so, he says, "would be biting the economic hand feeding us." The supplier, he notes, had become a "source of secondary financing" by extending credit terms sometimes up to a year.

But when the supplier ran into some problems of its own, it wanted Seasafe to pay up—and to pay cash on the delivery of future orders.

Where would the money come from? Initially, Dooley looked hard for internal solutions. "The first thing we did was go to inventory and count each and every item on hand," he says. Dooley was certain Seasafe had at least 90 percent of the material it needed for the next three months. What it didn't have, it would purchase only as needed, even if a premium had to be paid.

"What we ended up doing," he says, "was liquidating inventory and turning the inventory into cash and turning the cash into payments." Within 90 days, he says, "we were able to reduce inventory by almost \$250,000."

With accounts receivable in excess of \$1 million, Seasafe also went into what Dooley



A creative banker pulled together financing that enabled Dorene Miller to complete construction of her conference center.

COVER STORY

calls "a vigorous collection mode," turning up another \$250,000 in the same time frame. "We made deals with good customers and gave them discounts [for quick payment] because cash flow became more important at this point than profits," he says.

As Seasafe began to improve the management of its receivables and it became clear that it was going to pull itself out of the financial mess it was in, outside financing began to emerge. Premier Venture Capital Corp., a Baton Rouge, La., firm that had invested \$250,000 in Seasafe earlier, put up an additional \$500,000; it

needed to buy new pultrusion equipment.

This year, Dooley expects more than \$8 million in revenues, up from \$7.6 million last year, and his 75-employee company has been profitable in each of the past five months. It has even patched up its relationship with the supplier: Although Seasafe reduced its purchases, it is still a substantial customer.

"You don't just throw a relationship like that away, no matter how painful it's been in the last year," says Dooley. In fact, he says, it was the combination of good relationships—with customers, with his bank, and

Rashleger and Welch were in the process of designing a completely new product—their own machine tool on which they could install their own computer. Their machine tools would be "sold at the lowest market prices ever seen," says Rashleger. But just as they were ready to bring the product to market in 1991, they were without cash.

The partners turned to their vendors, negotiating extended-payment plans. They also found a new bank that would provide them with the credit they needed—a small, local bank that, Rashleger says, "believed in us and understood manufacturing."

He and Welch also got employees to agree to take pay cuts of 20 percent, which the owners promised to repay—and did, within the year.

Rashleger emphasizes the importance of relationships in surviving a financial crisis and growing a business. "Our small, local bank understands our needs better than a bigger bank," he says. "Our dealers work for us because of our personal relationships and our loyalty to them. Our employees stand by us because they believe in us and we share our profits with them."

Sales of the new product took off, and today Milltronics is prospering. Revenues last year were \$26 million, compared with \$7 million three years earlier. The company has 165 employees, triple the 1992 level, and it has just moved to a new, 100,000-square-foot plant in Waconia, Minn.



PHOTO: T. MICHAEL KEZA

After being turned down by numerous lenders, Byron and Wendy Dyke found financing for their ice arena through U.S. Small Business Administration and state programs.

now owns 25 percent of the company.

Premier's confidence in Seasafe enabled Dooley to persuade his bank, the Bank of Lafayette, to increase the company's operating line of credit to \$750,000 from \$500,000 and to let him borrow an additional \$120,000 against the manufacturing facility.

The bank was now so sure that Seasafe was moving in the right direction that it didn't waver when Seasafe finally began to bring the pultrusion process in-house—a move that meant a six-month learning curve for Dooley and his employees and cost the company about \$250,000. The bank "didn't panic one bit," says Dooley.

Nine months after the crisis began, Seasafe had paid off its supplier and had more than \$170,000 in cash. Not long thereafter, Banc One, a national bank headquartered in Columbus, Ohio, volunteered to fund the \$400,000 that Seasafe

with the venture-capital firm—and a high-performing team of top managers that got his company through such a turbulent time.

Getting The Right Bank

Although Tim Rashleger and his partner, Gary A. Welch, had never missed a payment, when they learned that their bank was calling in their line of credit, their company was, in fact, in some trouble.

Milltronics' computer numerical-control systems for metal-cutting equipment were sold to machine-tool companies that incorporated the systems into their own products. But shifts in the machine-tool industry, partly a result of Japanese competition, shrank Milltronics' market. "It was a case of having a good mousetrap but no one to sell it to," says Rashleger, the company's chief operations officer.

Finding A Champion

The \$3.5 million Black Tie Affair Party & Conference Center, in Wooster, Ohio, was only partially built in 1993 when Dorene Miller learned that the mortgage broker funding it was going out of business. The contractors and subcontractors walked off the job. For two winters, the building—with no doors or windows—stood empty.

Once again, Miller, president of Black Tie Affair, Inc., and her partner, Betty Stine, had to try to line up the money for the center. It was going to be a tough sell. "Bankers and investors were reluctant to get involved in a long, drawn-out situation that appeared to have a rather dubious outcome," says Miller. They regarded the facility as a "distressed" project.

Black Tie had been a catering service since 1980, and the conference and party

center had been Miller's dream for many years. There was no facility like it in Wooster, a community of 28,000 in a rural area. People would use church halls or the American Legion building. Many weddings were held out of town, Miller says, because the area had "nothing carpeted and wallpapered and pretty."

But now her dream was halted in its tracks. Miller had already booked more than \$1 million in corporate events, parties, and weddings at a center that didn't exist. Competitors of the catering side of her business began spreading rumors that Black Tie was going bankrupt.

"It cost us a fortune," says Miller. Not only did Black Tie lose business from clients who lost confidence in the company, but there were also legal and accounting fees, expenses such as insurance and taxes on the existing construction, and threats of lawsuits from subcontractors.

Then Black Tie found a champion: Jim Kleinfelter, a senior vice president at the Savings Bank and Trust Company of Orrville, a town nearby. He had been interested in the project from its beginning.

A banker whom Miller describes as "adventurous" and "creative," Kleinfelter pulled together a consortium of five banks that agreed to put up \$1.8 million for the building and a \$200,000 line of credit. (Miller and Stine already owned the land, which was considered part of the equity required by the banks; the rest of the equity and some collateral came from their families.)

But none of the banks would come forth with the \$450,000 needed for furnishings and equipment. Until Black Tie came up with these funds, the banks refused to release any money for construction.

Before she found her now-defunct mortgage broker, Miller had been urged by the president of the Wooster Area Chamber of Commerce at the time to seek a Farmers Home Administration-guaranteed loan for business and industry. But she couldn't persuade any bank to pursue that approach.

Ultimately, FmHA, whose business-lending function is now part of the Rural Development Mission of the U.S. Department of Agriculture, was the source of the last bit of funding.

Miller recalls the day the FmHA loan officer came to see the project: "We knew that my presentation to him was critical and that we had to convince this man that this project was worthwhile, because he was going to put the final stamp of approval on it or he was going to nail our coffin."

It "helped tremendously," she says, that Jack O'Donnell, the current president of the Wooster chamber, took the loan officer on a tour of the area "to show him what a

A Strategy To Factor In

One tool for raising quick cash used to be available only to large companies. It's called factoring, and it entails selling accounts receivable at a discount to a company called a factor, which then collects the accounts.

The factor makes money on the difference between the discounted price it pays for your receivables and the money it collects. And you get cash much more quickly than the 30 or more days it may take a customer to pay.

Today, because of changes in the factoring industry, "small and medium-sized businesses can take advantage of this financing strategy" just as larger companies can, says Alana Davidson, principal of IBC Funding, a Washington, D.C., factoring broker, which matches up businesses with factors.

"Factoring is a way to turn a company asset—accounts receivable—into immediate cash without creating new debt," says Davidson.

It takes five to seven days to set up an account with a factor, Davidson says. According to *Finding Money: The Small Business Guide To Financing*, by Kate Lister and Tom Harnish, factors advance 50 percent to 80 percent of the face value of the receivables to you immediately. They pay the balance, less the factor's discount, once the receivables are collected.

For example, here's how it works at Coastline Financial Group, a Hockessin, Del., factor: Coastline agrees to buy your \$10,000 invoice to XYZ Co. Coastline advances you \$7,000. On collection of the \$10,000 from XYZ Co., Coastline pays you \$2,500 and retains \$500 as its fee.

Only companies that do business with other businesses or with government clients at the local, state, or federal level are eligible, according to Davidson. Your firm is a strong candidate for factoring if it sells to major companies that have good credit, she says.

The disadvantage of factoring is that it's expensive, write Lister and Harnish. According to their estimates, discounts range from 1.5 to 5 percent of the face

value of the receivables. Other sources say discounts can be 4 to 7 percent. The amount of the discount depends on the creditworthiness of your customers, whether the factor will assume the risk of bad debt, and other variables.

On the plus side, says Davidson, you don't give up equity in your company when you raise money this way, and the factor provides constant monitoring of

your customers' credit status, along with other services. In addition, factoring can work for many kinds of companies—start-ups, expanding businesses, and even companies coming out of bankruptcy. Davidson says factoring also can be used to generate the growth that will increase profits.

"Before entering into this kind of relationship, just be sure the factoring [costs] don't absorb all your profits," Lister and Harnish caution. They also advise businesses to first check a prospective factor's references and its

reputation among bankers, accountants, and others.

You don't have to choose between a bank and a factor—they often work together, says Davidson. In fact, she says, "factors can be your ally in helping you create a very strong financial picture."

The *Edwards Directory of American Factors* provides information on factoring and lists more than 200 factoring firms around the country. It is available at some libraries, or it can be obtained for \$250 plus \$7.50 shipping from the Edwards Research Group, in Newton, Mass.; to order, call 1-800-963-1993. (Copies of the 1994 edition may still be available at half price.)

For a free copy of a paper by Davidson, "Ten Frequently Asked Questions About Factoring," send your request with a self-addressed, stamped envelope to her at IBC Funding, 3705 Ingomar St., N.W., Washington, D.C. 20015.

You can also call up Coastline's home page at <http://www.cfg-llc.com> for its answers to frequently asked questions on the subject.



PHOTO: T. MICHAEL KEZA

As principal of a factoring broker, Alana Davidson helps firms raise quick cash.

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PHOTO: ©PHILIP AMDAL

Lighting manufacturers Jerry and Loretta Schutten of Seattle got a loan for a new building from the economic-development corporation headed by Jim McDonald, right.

growing community we were and how much we needed this project."

The new facility opened in July last year. The cornerstone reads: "Dedicated to dreamers ... and believers." It bears the date 1993, when, Miller says, "this seemingly impossible journey all began."

An Arduous Start-Up

It took Wendy and Byron Dyke nearly 3½ years to get the money they needed to launch Frederick Sport & Ice Arena, in

Frederick, Md. By the time the financial package was put together, they had been turned down by 16 commercial lenders, eight leasing companies, and four venture-capital organizations.

The Dykes envisioned a complex that would include an ice rink and a fitness club in a community that had neither. Frederick County is a rapidly growing area near Washington, D.C., and the Dykes were sure they had a market. When they sought funds for the \$3.3 million facility, however, they had trouble convincing anybody else.

Beginning in September 1990, they spent a year researching the ice-rink and health-club industries and developing their business plan. Byron had a degree in accounting and experience in business and finance, which were critical to producing accurate projections and cost estimates.

To keep costs down, they hoped to lease four acres of public property. But no appropriate plot was available, hampering early efforts to interest lenders.

In March 1992, Byron parted ways with his employer, which was going through a major downsizing. Living on his severance pay, he and Wendy incorporated and began devoting all of their time to the task of securing financing.

They eventually won approval for a loan of nearly \$1 million under a special jobs-creation program of the U.S. Small Business Administration. That persuaded two banks to come in for a total of \$1.2 million more. The Dykes, who finally purchased a commercial site, came up with about \$700,000 in equity—mostly from personal funds as well as family members and friends, including some who invested as limited partners.

But there was still a gap of \$250,000, and this time the couple turned to the state. After applying to several programs, they finally obtained a loan through the Maryland Industrial and Commercial Redevelopment Fund program, which is aimed at increasing tax revenues, creating jobs, and enhancing quality of life.

But still there were delays because program regulations required the support of the city of Frederick and Frederick County. They had never participated in the

Getting A Bank To Stick With You

"Even though I always paid on time, my bank called in my loan."

"My bank won't renew my line of credit."

"Another bank acquired my bank, and now the person I was dealing with is no longer there. These new people don't seem interested in me."

Such comments from entrepreneurs are not unusual. Why does a bank stop financing what appears to be a good customer? And what can entrepreneurs do to keep from being left high and dry by a bank?

A bank may go into a "crisis mode" and start calling in some loans because it's having financial difficulty itself and is trying to reorganize or to keep from being acquired or going under, says Sandra Maltby, senior vice president of small-business services for KeyCorp, a bank holding company based in Cleveland.

Sometimes—although rarely, Maltby says—a bank may exit an industry if it sees a big downturn in that line of business.

Although it's not always possible to avoid being dropped by your bank, you can take steps such as these to help prevent it:

Get to know as many people as you can within your bank. "That's a fact of life right now," says Maltby. Then, if your bank is acquired, some of the survivors may be people with whom you have a relationship. (See "What To Do When Banks Play Musical Chairs," in the May Family Business section.)

Keep your banker informed. "The last thing you want your banker to get is bad news that's a surprise," says David M. Dooley Sr., president of Seasafe, Inc., a

fiberglass fabricator in Lafayette, La., that survived its own financial emergency. When a supplier unexpectedly demanded payment of \$1.6 million owed to it by Seasafe, Dooley accelerated cash flow by selling off inventory and speeding up collections. If you're in trouble, don't pretend you're not, he advises. A bank is more likely to keep working with you when you admit your mistakes and present a plan for overcoming your problems, he says. "Nobody wants to see anything bad happen to you, especially your banker."

Plan, plan, plan. You shouldn't find yourself in the position of suddenly having to

**If things
go wrong,
a show of
confidence
can help.**

program, and it took four months to review and approve the project. "Getting that last \$250,000 in state funding really was probably the slowest part," says Wendy.

One step that helped the Dykes win over the lenders was holding a "Youth Hockey Night in Frederick" to demonstrate that there would be community support for their facility. They had hoped for at least 300 people; 1,200 showed up. In addition, says Byron, "we did a lot of homework on the project. Our business plan was approaching 250 pages."

Still, the Dykes moved forward only with the ice rink, delaying, at the banks' request, the fitness center. The ice rink opened in December 1994 and was so successful that a second rink was added a year later.

Now the Dykes are getting ready to add the fitness center, and guess what? Their bankers don't want to lend them any more money—not until the facility has at least two years under its belt. But the Dykes think the timing is critical, and because of their success so far, they've been able to clinch a deal with a new lender, Provident Bank of Maryland.

One lesson these stories illustrate is that the search for capital must be as creative as anything else you do in your business. And although it may seem that money-raising efforts eat up every minute you have, you still have to juggle all the other balls. That's because a company's ability to raise funds is tied to

rush to a bank to borrow \$20,000 to meet payables or buy inventory. Running a business means learning to manage cash flow. "Even if you don't need to borrow, get a line of credit today," says Maltby, so you'll have funds available when you need them.

Never let them see you sweat. When things go wrong, a show of confidence will be your ally. "If you panic and lose confidence, everyone around you is going to panic and lose confidence," says Dooley.

"Your banker is not just your banker," he adds. "He's a partner. Treat him like one, and he'll respond like one. Especially if you have problems."

Maltby says banks really do want to do business with owners of small businesses and that they are going after that market as never before because of competition from nontraditional sources such as nonbanking companies. "Banks are very willing to lend right now," she says.



PHOTO: ©TED HARDIN

Hoping to take *his restaurant national, Michael Kaufman plans a stock offering to raise funds.*

everything else that's going on in the business.

When Black Tie Affair was in trouble, Dorene Miller found her company had to perform even better to win the confidence of bankers and investors. "I stressed to our employees that we were under the microscope," she says. "Everyone would be watching to see if our quality and service would be any less. It was so important to be better than ever. We never missed a beat at keeping the business running."

As the stories of Miller and other entrepreneurs illustrate, finding money often means looking in places you might not have looked before. Here are some possibilities:

Little-Known Government Programs

The Farmers Home Administration loan that Miller obtained is just one example. And almost every entrepreneur knows about the 7(a) Loan Guaranty Program offered by the Small Business Administration (SBA). Lesser-known sources include the 504 Certified Development Company (CDC) Program (used by ice-rink entrepreneurs Wendy and Byron Dyke for their \$1 million loan), the SCOR program, and Small Business Investment Companies.

The 504 program is aimed at creating or retaining jobs by providing growing businesses with long-term financing for major fixed assets, such as land and buildings.

It is administered throughout the country by about 290 CDCs, which are private, nonprofit economic-development corporations. They sell debentures and use the proceeds to make loans at reasonable interest rates to qualified small businesses—companies with a net worth of no more than \$6 million and an annual net income of no more than \$2 million.

When Commercial Lighting Co., a manufacturing company in Seattle, outgrew its rented space, owners Jerry and Loretta Schutten approached their lender, Evergreen Bank, about financing the purchase of a building. But they didn't have the 30 percent down payment that is generally required for commercial-property loans.

The bank sent them to the Seattle CDC, the Evergreen Community Development Association (which is not affiliated with the bank). Typically, says the ECDA's executive director, Jim McDonald, a CDC will fund 40 percent of a project. In the case of Commercial Lighting, the ECDA provided a \$148,400 loan that

was 100 percent guaranteed by the SBA. Evergreen Bank made a nonguaranteed loan of \$192,000, and the Schutten put in the required 10 percent.

Commercial Lighting moved into its newly purchased structure in March. "It's like a miracle we're in this building," says Jerry Schutten.

To locate the CDC nearest you, call the National Association of Development Companies at 1-800-972-2504.

The Small Corporate Offering Registration program, known as SCOR, is offered through the U.S. Securities and Exchange Commission. SCOR enables small businesses to raise up to \$1 million a year by selling common stock.

Michael Kaufman and Willie Jones put together \$193,000 in personal savings and funds raised from friends to open WillieMichael's Southern Cafe in New York City's Harlem section in November. Now they want to raise money using the SCOR program to expand their restaurant into a national soul-food franchise.

Although it is intended to streamline and reduce the costs of public offerings, the program is still fairly complicated, and Kaufman estimates that he could end up paying as much as \$40,000 in attorneys' fees, agent fees, and filing fees to raise \$1

COVER STORY

million. For details on the SCOR program, call the North American Securities Administrators Association at (202) 737-0900. You can also call up the SEC's World Wide Web site for small business

at <http://www.sec.gov/smbus1.htm> for more information.



Small Business Investment Companies constitute another funding source that should not be overlooked. SBICs are private firms licensed by the SBA to provide equity capital, long-term financing, and management assistance to small businesses.

Venture Capital: Where To Find It, a directory of about 200 SBICs, is available for \$20; send a check or a money order to the National Association of Small Business Investment Companies, P.O. Box 2039, Merrifield, Va. 22116. For additional information, call NASBIC at (703) 683-1601.

Other Sources Of Money

Banks are not the only game in town. For example, The Money Store, a publicly traded financial-services company with 185 locations across the country, bills itself as the No. 1 lender of SBA-guaranteed loans. (For information, call 1-800-486-8953.)

General Electric Co. makes a wide range of loans through GE Capital Small Business Finance Corp., which has 30 offices nationwide. (Call Nancy Nyikes at 314-205-3540.)

AT&T makes SBA-guaranteed loans through AT&T Small Business Lending Corp., a subsidiary of AT&T Capital Corp., a full-service finance and equipment-leasing company that specializes in small business. (Call 1-800-221-7252.)

Programs For Women And Minorities

Sources of funding targeted for businesses owned by women or minority-group members include:

A \$1 billion loan fund set up for three years beginning last fall by Wells Fargo Bank and the National Association of Women Business Owners. The program is specifically for creditworthy women business owners; the minimum loan is \$5,000.

Applications can be made by phone at 1-800-359-3557, Ext. 120, for loans up to \$25,000.

Special Small Business Investment Companies. SSBICs are like SBICs, but they focus on funding business owners who are socially or economically disadvantaged—generally, minority-owned companies. SSBICs are privately owned investment firms licensed and regulated by the SBA.

For more information, contact your local SBA office or call the National Association of Investment Companies, the national

If you're suddenly strapped for cash, maybe what you need is better management.

organization of SSBICs, at (202) 289-4336. To obtain the NAIC membership directory, which lists about 120 SSBICs and offers guidelines, send a check or a money order for \$30 to NAIC at 1111 14th St., N.W., Suite 700, Washington, D.C. 20005.

The Business Consortium Fund, Inc., was created by the National Minority Suppliers Development Council,

in New York City, to provide access to working capital for the council's certified minority suppliers. For information, call the fund at (212) 243-7360.

Family And Friends

Relatives and friends are usually the financing sources of first resort for start-ups and young companies. For example, Steven Powers, of PowerTech! Propellers, in Shreveport, La., turned to his mother.

After undergoing two hip replacements, she sold her successful real-estate business. Powers persuaded her to buy out the majority stockholder in his own young but struggling company—a manufacturer of propellers for outboard motors—and become his partner.

"The funds she had available and her need for a new career, something less taxing than showing real estate, fit our needs," he says.

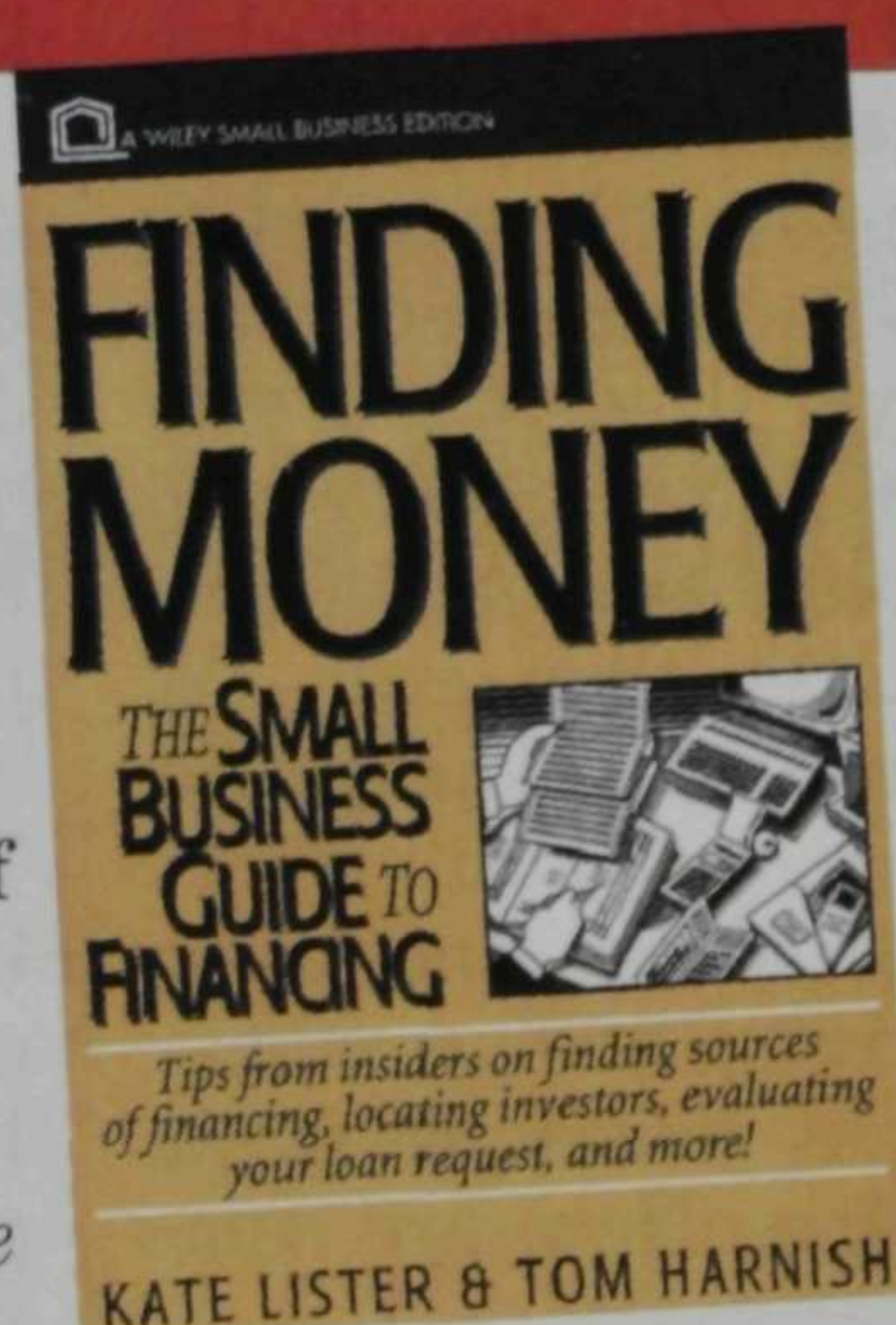
Publications And Web Sites

Here are some of the many resources available to guide you through the maze of finding and getting money for your firm.

Books And Publications

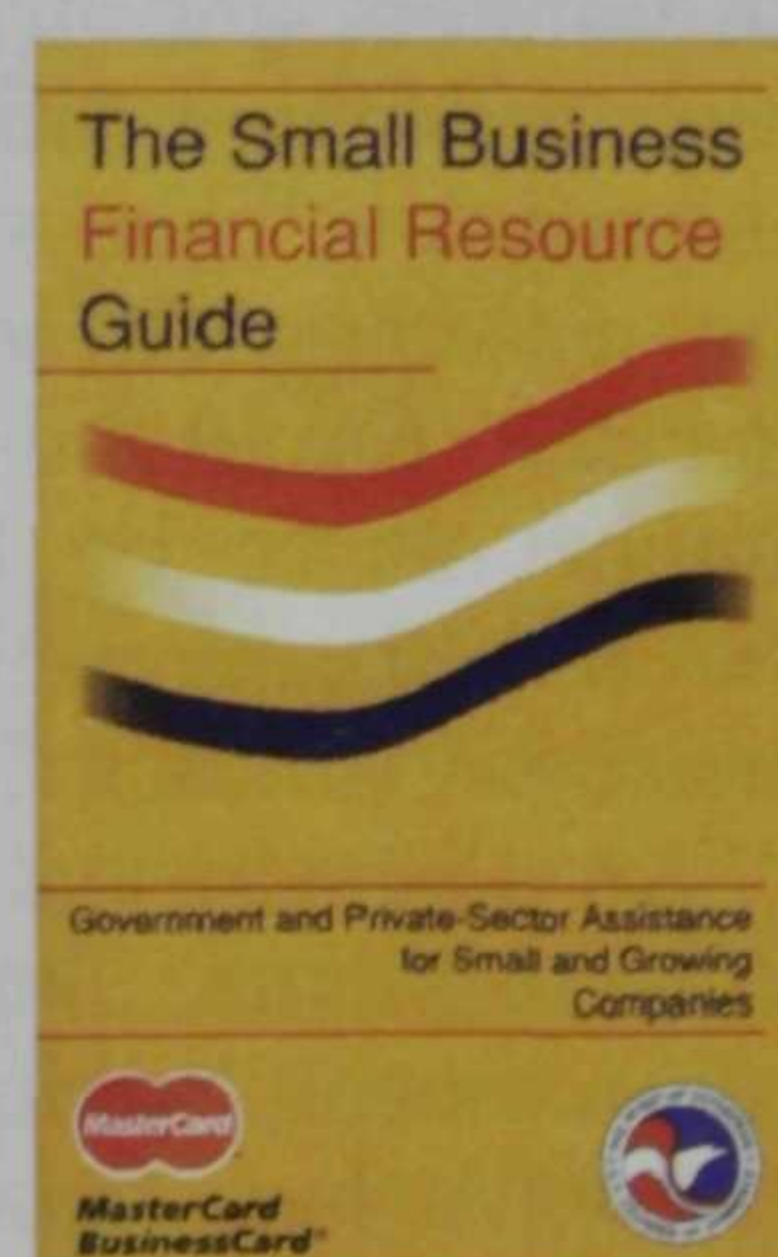
The Small Business Financial Resource Guide is a 154-page manual of advice on obtaining financing. It also lists federal, state, and private sources of funding and assistance. The guide is available free from the U.S. Chamber of Commerce; call (202) 463-5503.

The Comprehensive Handbook for SBA Loans, by Atlanta banker Charles H. Green (Advisory Press, \$19.95), is designed to teach entrepreneurs how to be approved for business loans guaranteed by the U.S. Small Business Administration. It is available in bookstores or by calling the publisher at 1-800-822-8500.



Financial Basics of Small Business Success, by James O. Gill (Crisp Publications, \$15.95), won't help you find money, but it will give you the know-how to talk with bankers and other lenders and to help you avoid financial disasters. To order the book, call the publisher at 1-800-442-7477.

Finding Money: The Small Business Guide to Financing, by Kate Lister and Tom Harnish (John Wiley & Sons, \$17.95), analyzes debt and equity financ-



ing and shows how to find money from lenders and investors. It is available in bookstores or by calling (908) 469-4400.

The Insider's Guide To Small Business Loans, by former SBA official Dan M. Koehler (Oasis Press/PSI Research, \$19.95), walks you through the process of getting a loan and provides lists of lenders and venture-capital companies involved in SBA programs. To order, call 1-800-228-2275.

World Wide Web Sites

The U.S. Small Business Administration's site is <http://www.sbaonline.sba.gov> and includes a section called "Financing Your Business," which provides information on all the SBA's funding programs.

At <http://nmq.com> you can click on "Emerging Business NetCenter" to find articles on financing provided by NetMarquee Online Services Inc.

The U.S. Business Advisor at <http://www.business.gov/> provides access to all of the federal government's business sites.

Partnerships With Larger Companies

James W. Morentz, of EIS International, a Rockville, Md., company that develops software to help emergency-management professionals cope with disasters, gets financial backing from companies with which it has partnership agreements; they include NEC Corp., Electronic Data Systems Corp., and Unisys Corp.

When Floyd R. Correa had trouble obtaining financing for Correa Enterprises, Inc., his computer and telecommunications consulting firm in Albuquerque, N.M., he negotiated a joint office-occupancy agreement with his first client, Atlantic Richfield Co. Correa was allowed the use of ARCO offices, computer equipment, and clerical staff. "This very generous offer by ARCO was key in CEI's survival in the first two years of operation," he says.

State Programs For Cash And Resources

The last bit of funding Wendy and Byron Dyke got for their sports center came from a state program. Check with your state's economic-development office for information on financing sources.

Although you may think your problems will be solved if you can just throw money at them, business owners and bankers alike urge you to look at whether lack of money is the real problem, particularly if you have been in business for a while. If you're suddenly strapped for cash, perhaps what you need more than money is better management.

When business owners face an unex-

pected cash crunch, "we try to educate them," says Sandra Maltby, senior vice president of small-business services for KeyCorp, a bank holding company based in Cleveland. "We walk them back and see what happened in their cash flow that caused them to need money today."

If money is really what you need, however, and you decide to go after it, be sure you understand the costs of whatever type of financing you pursue. Interest rates can vary on loans, depending on their sources. Many desperate business owners tap their credit cards, but that's a very expensive source of financing.

And if you seek venture capital, remember that you will give up some control of your company. Investors "always want part of your soul," said one business owner.

As you search for capital, look for multiple solutions. Nearly all the entrepreneurs in this article used a combination of techniques to get the funding they needed.

And try not to get discouraged. Getting money for your business can take a long time and will put you through many tests. But there's a way to keep going, says Wendy Dyke: Every time you think "I'm close" and yet another obstacle looms in your path, tell yourself again, "Well, OK, I'll get over this hurdle and I'm there."

The point, she says, is to never quit jumping over those hurdles. **NB**



To order a reprint of this story, see Page 57.
For a fax copy, see Page 5.

As you search for capital, consider multiple solutions and combinations of techniques.

Blue Chip Firms

Seven of the businesses featured or mentioned in our cover story are state honorees in the 1996 Blue Chip Enterprise Initiative program, which recognizes companies that have overcome adversity and emerged stronger as a result.

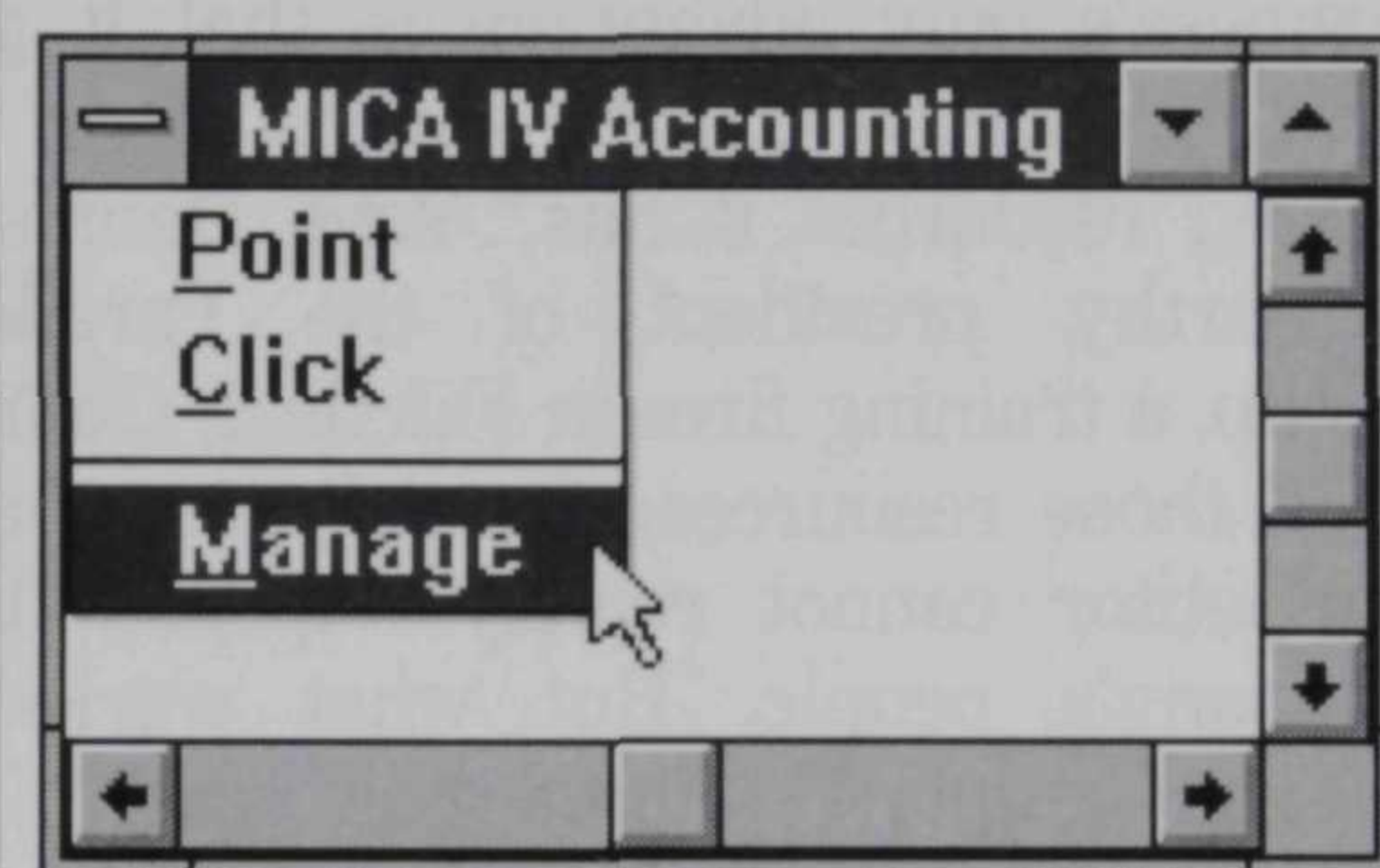
The program is sponsored by the Massachusetts Mutual Life Insurance Co., widely known as MassMutual — The Blue Chip Company; the U.S. Chamber of Commerce; and *Nation's Business*.

The Blue Chip companies in this story, in the order of their appearance, are Seasafe, Inc., Lafayette, La.; Milltronics Manufacturing Co., Waconia, Minn.; Black Tie Affair Party & Conference

Center, Wooster, Ohio; Frederick Sport & Ice Arena, Frederick, Md.; PowerTech! Propellers, Shreveport, La.; EIS International, Rockville, Md.; and Correa Enterprises, Inc., Albuquerque, N.M.

The seventh annual Blue Chip program is under way; the deadline for applications is Oct. 25. The 1997 honorees will be named early next year. Any for-profit company that has been in business at least three years, employs five to 300 people, and has overcome significant challenges is eligible. Application information can be obtained from many state and local chambers of commerce, from MassMutual associates around the country, or from the advertisement in the center of this issue. You may also call 1-800-FOR-BCEI (1-800-367-2234).

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Improving Worker Performance

By Michael Barrier

A small company that wants to survive, not to mention grow, has no choice but to seek ever-improving performance from its employees. "A small business's only advantage is that it gets more productivity, if it's smart, out of the limited resources it has," says Dennis G. McCarthy, president of the Paradigm Group, a training firm in Fairfield, Conn.

Of those resources, the only one that a competitor cannot readily duplicate is a company's people. But what works to motivate employees to do their best?

Money alone usually isn't a sufficient motivator. Says Robert J. Shillman, founder and CEO of Cognex Corp., a highly successful manufacturing firm based in Natick, Mass.: "People don't really work for salary or stock options or bonuses. Sure, to get the right kind of people, you have to put together a compensation package for them, but what people really work for is appreciation and the feeling that success brings to them."

Careful hiring cannot substitute for continuing efforts to help employees perform better. "You can hire the best people, but if you don't treat them right, they're not going to be the best people anymore," says Shillman, whose company makes machine-vision devices for optical detection of defects in manufactured parts.

The small-business owner who tries to bully employees into better performance is not going to get very far, either. It's true that "you can get desired behavior through fear and punishment, but it will be very short-term," says Bob Nelson, vice president of Blanchard Training & Development, in Escondido, Calif., and author of *1,001 Ways to Reward Employees*.

To help improve employee performance, a small-business owner or manager could start with questions such as these:

Do you try to make sure that there's the right fit between employee and job?

"Just because somebody has experience in a field doesn't necessarily mean that they're suited to that field," says Terri Kabachnick,

a former department-store executive who is now a personnel-issues consultant in Cromwell, Conn. She cites the example of a salesman who was failing at selling high-fashion menswear, to the point that his employer had put him on probation.

"Through assessments and interviewing," she says, "we found out that he didn't have the confidence to suggest styles and colors. We moved him to an area that was his alone and that had nothing to do with fashion, or his view of himself, but had everything to do with service." That was the

Managers have many ways to accomplish it, from making sure an employee is in the right job to opening up career paths.

surviving in the long term," says Jim Harris, an Indian Rocks Beach, Fla., consultant and author of *Getting Employees to Fall in Love with Your Company*.

Employees need to be aware of how their efforts serve customers' needs. "One of the things that allows us to keep our people is that they're not just performing a task that has been outsourced, but they're actually engaged with the client, which is a much more exciting career," says Peter C. Cowie, founder and CEO of Charter Systems, a Waltham, Mass., firm that provides computer network services.

About two-thirds of Charter's 100 employees are what Cowie calls "network systems engineers." Their close involvement with customers—mostly large businesses—means that many of them get job offers, Cowie says, but "we've only lost four people we didn't want to leave the company."

Charter Systems' engineers work closely with customers in designing and supporting their computer networks, but there are many other ways to put employees in touch with customers, even when they ordinarily wouldn't see customers: by encouraging telephone con-

tact, for example, or taking employees to trade shows.

Customer contact in itself isn't enough to guarantee improved performance, of course, as everyone who has dealt with a surly or disengaged salesperson knows all too well. "It's difficult for employees to treat customers better than they think they're being treated," Nelson says. "But if they feel they're valued, and they're excited about their jobs, it's a snap to get them to treat customers well."

Does your company's culture encourage high performance?

There's wide agreement that the tone the owner sets for the business is critical to the success of efforts to improve employee performance. Says Harris: "I know that a lot of people say that mission statements are just fancy words on a wall; and 90



ILLUSTRATION: ALBERTO PACHECO

store's greeting-card department.

"He targeted mostly men," whom he found to be frustrated and overwhelmed by the enormous number of cards, Kabachnick says. The salesman developed a service for his customers—he took their names and all the important dates for which they would want to buy cards. Two weeks before each date, he sent his customers a selection of cards, asking them to send back any unwanted cards. Not one card was returned in that first year, Kabachnick says, and the man's card sales totaled \$365,000.

Do you search for ways to put your employees in direct contact with your customers?

"The companies that are doing a better job of connecting at the front line, at the point of customer contact—they're the ones that are winning today and that are going to be

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percent of the time it's true. But if you really want to get at the heart of your people, you've got to give them a reason to commit. Without that, what you have is a bunch of walking dummies."

Lida Hayes-Calvert, owner of S & L Painting and Decorating, in Winston-

is quirkier than most, complete with a company salute. On a more profound level, "you have to be willing to empower people," Shillman says. "We have a saying at Cognex: 'Don't do what you're told, do what's right.' We really mean that. There have been two instances where I specifically

who showed a positive attitude—with nominations coming from co-workers who witnessed exceptional efforts. The contest ran for a year, and the bank's 350 employees submitted almost 49,000 nomination slips.

"It was so successful that we wanted to continue that peer-recognition part of it," says Mary Roberts Henderson, who is in charge of communications and media relations for the bank. So the bank has launched two new peer-driven award programs.

But informal recognition counts for more, says Blanchard Training's Nelson. "There's a place for formal programs as well," he says, "but I think that most people overlook the informal."

Informal rewards can be both highly effective and cost-free. An effective reward "can be as simple as sincere praise," says Jack Zigon, president of Zigon Performance Group, a management consulting firm in Media, Pa. This is especially true, he says, when that praise is given with specific information about what the employee has done to merit it, so that the performance can be repeated.

Do you try to tailor rewards and recognition to the individual?

"At the core" of successful motivation, Nelson believes, "is tapping into the things that are really important to people—taking the time to find out what those are, and structuring your recognition around those, in the context of the job."

What is a reward to one person may be a punishment to another, Zigon points out: "You might like more responsibility; I might like less. You might like a dinner out; I'm on the road all the time, and I don't want to see another restaurant. The secret of making any reward effective is tailoring it to the individual.

"There's nothing wrong with asking" what kind of reward an employee would prefer, Zigon says. "By watching how people spend their time, listening to what they talk about, you learn about what turns

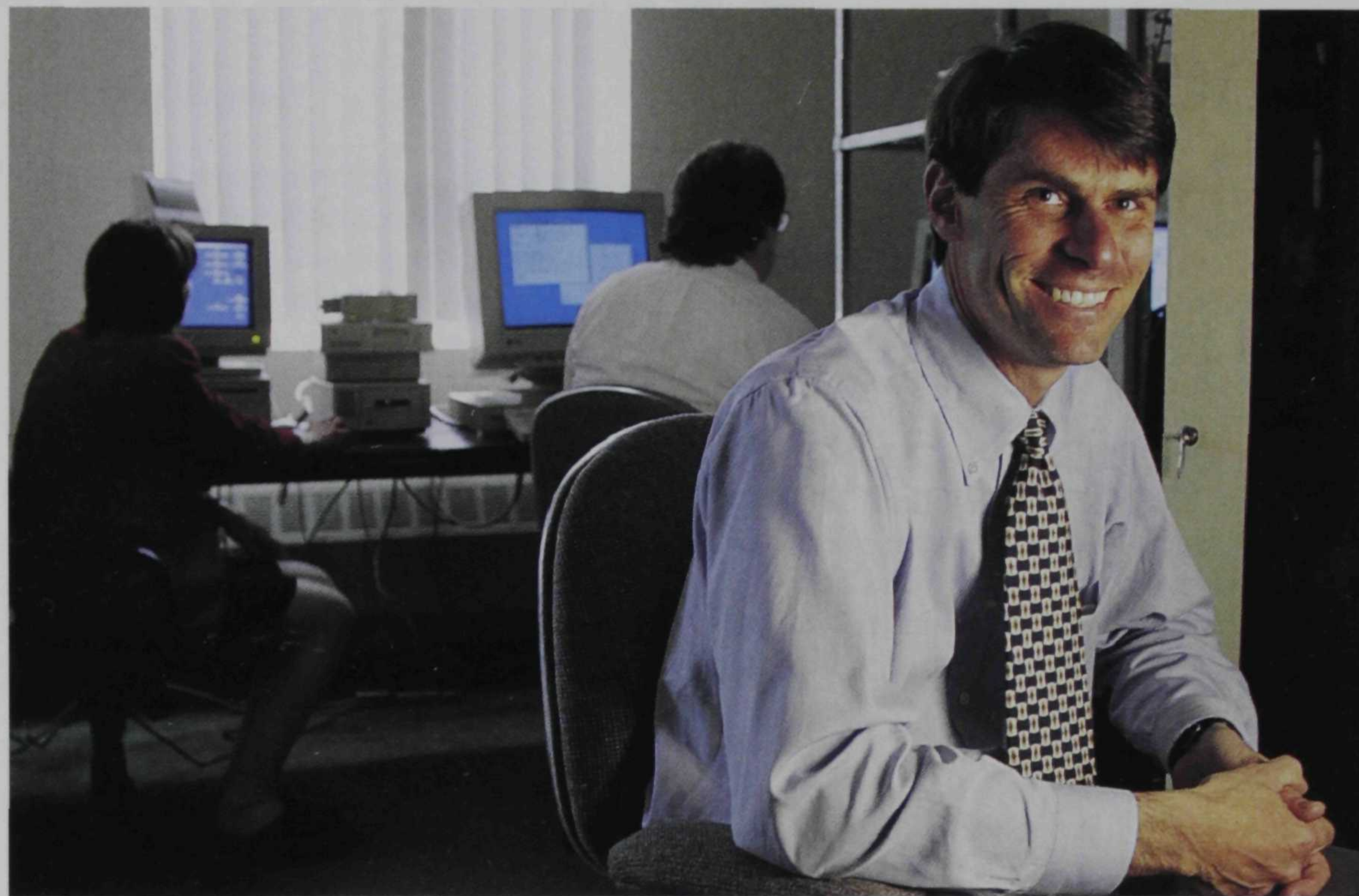


PHOTO: ©RICHARD HOWARD

He keeps good employees, says Peter C. Cowie, CEO of Charter Systems, based in Waltham, Mass., because they can see how they're serving customers' needs.

Salem, N.C., says the decisive moment for her 45-employee firm came a few years ago when she started using a uniform service for her painters.

Providing the uniforms "was just to accomplish one goal," Hayes-Calvert says—to give her painters a more professional appearance on the job—"and it wound up accomplishing about 25" goals, including greater productivity.

Dressed in their white uniforms, each bearing the employee's name, her painters "feel good about themselves," she says. "I think that's the most important thing about motivating a person. My guys strut."

Hayes-Calvert has capitalized on the painters' enhanced self-respect by drawing them into greater involvement in the business. S & L holds safety meetings twice a month to go over problems the painters encounter on the job. "I was a junior-high teacher," Hayes-Calvert says, "and I'm always calling on [the painters to speak]. I had some little guys who wouldn't even talk, and now, you wouldn't believe it—they want to take the floor. They generate a lot of good, money-saving ideas for me"—and for S & L's profit-sharing plan.

Likewise at Cognex—if in a very different way—"the company culture is in itself a motivator," Shillman says, for most of the 300 employees at Natick. Cognex's culture

told senior people not to do something, they went ahead and did it, and they were right. In front of everybody, I made a big deal of this and gave them special awards."

Do you seize opportunities to offer informal rewards and recognition?

Formal awards programs can be very successful, especially if they're based on employees' opinions of one another's work.

For example, Second National Bank of Warren, Ohio, offered what it called "Tortoise Shell Awards" to honor employees

To Learn More

Several books offer additional information on employee performance.

Getting Employees to Fall in Love with Your Company, by Jim Harris (AMACOM/American Management Association, \$17.95 in paperback), and *1,001 Ways to Reward Employees*, by Bob Nelson (Workman Publishing, \$9.95 in paperback), offer complementary approaches to improving employee performance.

Both books are filled with specific examples. Harris' book is concerned more with

developing a company culture that encourages improved performance, while Nelson's focuses more on individual techniques for rewarding such improvements.

Three books by Jack Zigon on employee performance—*How to Measure the Results of Work Teams*, *How to Measure White Collar Employee Performance*, and *Sample Employee Performance Measures*—are available from Zigon Performance Group Publications. For details and ordering information on Zigon's books, call 1-800-299-3022 and request that document No. 3500 be faxed to you; or call the order desk at 1-800-244-2892 or (610) 627-1711.

them on. You can then tailor your rewards." And here, of course, is where the owner of a small business has a real advantage because it is usually so much easier for such an owner to get to know employees.

Do you realize that many of your employees may find their greatest rewards in the work itself?

It's tempting to think of "rewards" as somehow removed from the work that people do to earn them. For many employees, however, the most powerfully motivating rewards may be those that offer them greater opportunities on the job. "You've got to give people forks in the road," says Charter Systems' Cowie—that

is, you must try to make different career paths available to them.

Such motivating "forks in the road" are not just for high-tech companies. At S & L, for example, Hayes-Calvert says that she now needs people who are not just painters but who can represent her in dealing with corporate CEOs on larger contracts.

On the other hand, in keeping with the idea that rewards should be tailored to the individual, business owners should recognize that not everyone is looking for a career path out of their present job. "I've worked with employees who are happy in their jobs," Zigon says. "They had a promotion, they didn't like it, and they came back."

For all small-business owners, the surest path to improved employee performance may lie in their recognition that most of their employees really do want to do a good job.

Says Paradigm Group's Dennis McCarthy: "Most people, when they get up in the morning, don't look in the mirror and say, 'How can I screw up at work today?' But, over time, they get so frustrated about not being able to do a good job that they finally say, 'I'll do what it takes to get by.'"

"I don't think we expect enough out of people," he continues. "When people are held to higher standards, they not only perform better, they feel a whole lot better about it. Business owners have accepted a level of mediocrity that they don't need to accept. They've blamed it on the work force, and I think they need to look in the mirror instead."

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MANAGING

When A Customer Goes Bankrupt

By Carolyn Magnuson

If you've never had a customer who owed you money and filed for bankruptcy, consider yourself lucky. Nationwide, bankruptcy filings are on the rise; they increased more than 11 percent last year over 1994.

Nearly a million debtors sought the protection of the U.S. bankruptcy courts in 1995, according to the Administrative Office of the Courts.

Bankruptcy has become such a part of the American business landscape that experts warn small businesses to be prepared. As companies fall, their suppliers and creditors often follow. "It's the domino effect after someone goes into bankruptcy," says Texas bankruptcy attorney Hugh Ray, chairman of the American Bar Association's business bankruptcy committee.

Bankruptcy is a creation of federal law and is divided into four major categories:

- Chapter 7 is designed to give individuals and businesses that cannot pay their debts a fresh start. The debtor is allowed to keep certain exempt property, and the remaining property is sold by a court-appointed trustee, with the proceeds distributed to creditors. At the end of the case, the debtor is given a clean slate—or a discharge, as it is called by the courts—and is no longer obligated to pay most past debts.

- Chapter 11 bankruptcies allow businesses to reorganize and continue to operate. Rather than liquidating, the Chapter 11 filer works out a plan to pay creditors.

- Chapter 12 filings, relatively rare, help financially distressed family farmers.

- Chapter 13 gives individuals—and sometimes businesses—a three-year break from collection actions; during that time they are to pay creditors in installments.

The primary emphasis in the bankruptcy courts is to make sure the debtor gets relief from creditors and has a chance to begin again. Nonetheless, bankruptcy experts say creditors still have a chance of getting paid if they follow certain steps:

Try An Ounce Of Prevention

Watch for signs that a customer might be having financial trouble. Says Los Angeles

Carolyn Magnuson is a free-lance writer in Waltham, Mass.



bankruptcy attorney Karol K. Denniston: "Don't assume customers will tell you when they're having a problem." Astute business owners pick up the telephone when they read that a customer has lost a major account or had a drop in earnings, she says. "Ask [the customers] candidly if they are planning to file for bankruptcy."

Secure Your Claims

Securing claims is an important factor in preventing losses in bankruptcy. When you secure collateral, you shore up your claim to a customer's assets—the property you sold on credit—should the customer go under.

"Put yourself on dry ground. Try in any way possible to obtain any security interest," advises the American Bar Association's Ray. Securing that interest must be done before the bankruptcy petition is filed. It may be best to consult an attorney familiar with your state's rules on security interests.

Get On The Mailing List Of Creditors

When a debtor files for bankruptcy, a list of creditors is compiled so they can be informed of the court dates. "If you know the person filed [for bankruptcy] and you don't get a notice, you need to be proactive," says Denniston.

Getting on the mailing list for the case should ensure that you get notice of meetings and hearings for creditors. Such meetings can indicate whether the debtor will continue to operate as a business and whether claims are worth pursuing.

Don't assume you'll never collect. The key is being prepared to stake your claim.

File A Notice Of Claim

When a bankruptcy filing is made, a deadline for claims is set. You must learn the deadline date. If you don't file your claim by then, says Denniston, "you're out of luck."

It is not enough merely to claim that a debtor owes you money; you must have some proof of debt. This may sound obvious, but in light of the speed of some transactions and the growing number of deals made over the telephone, some agreements may not be put into writing before a bankruptcy petition is filed. Documentation is important because claims will be reviewed by the bankruptcy trustee, who has the power to reject them.

Use What Leverage You Have

Depending upon whether the bankruptcy is a liquidation or a reorganization, a creditor may have some leverage. For example, if a business in bankruptcy wants to continue operations under its current lease, a landlord may be able to use that as leverage to receive lease payments in cash.

Although at first you may vow to never do business with the bankrupt company again, you may want to reconsider. A bankruptcy filing can ensure that you'll be paid in advance—and in cash—for whatever you supply in the future. Moreover, a company that rebounds may show loyalty to those suppliers who stuck with it during the storm.

Be Patient And Realistic

If you are waiting to recoup your share from a major corporation or large organization in bankruptcy, you could wait for years. Ben Branch, a University of Massachusetts professor of finance who for the past five years has been the trustee in the mammoth Bank of New England bankruptcy case, says, "Even if everything goes wonderfully, you can expect it will take about two years."

Yet it could be well worth your time, experts say. In some cases, Ray notes, recoveries can be 75 cents on the dollar for a secured claim.

Bear in mind that you should not walk into bankruptcy court expecting to recover 100 percent of what you are owed. Says Denniston: "Everyone realizes there is going to be a haircut. It's just a question of how much will be taken off."

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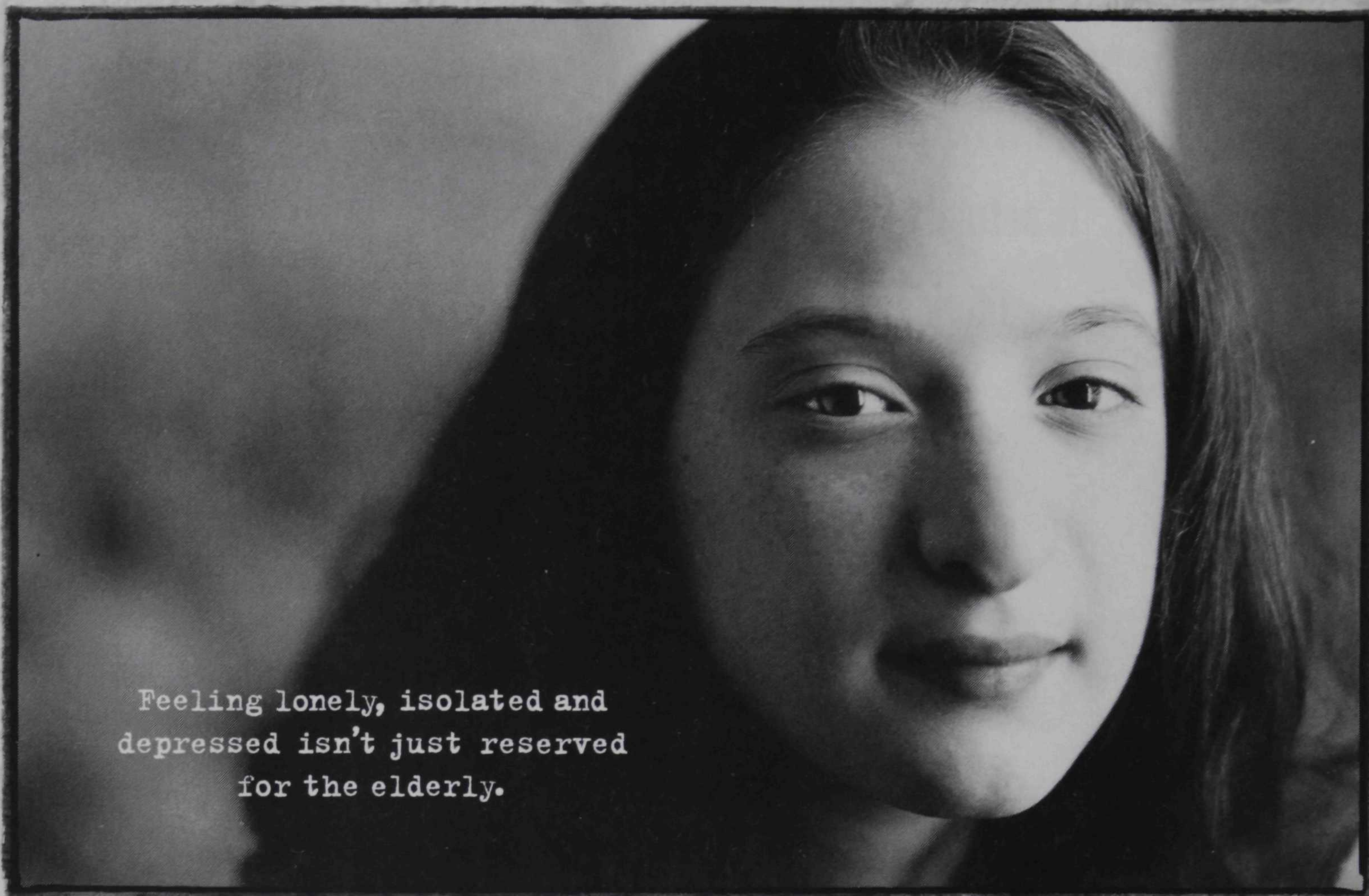


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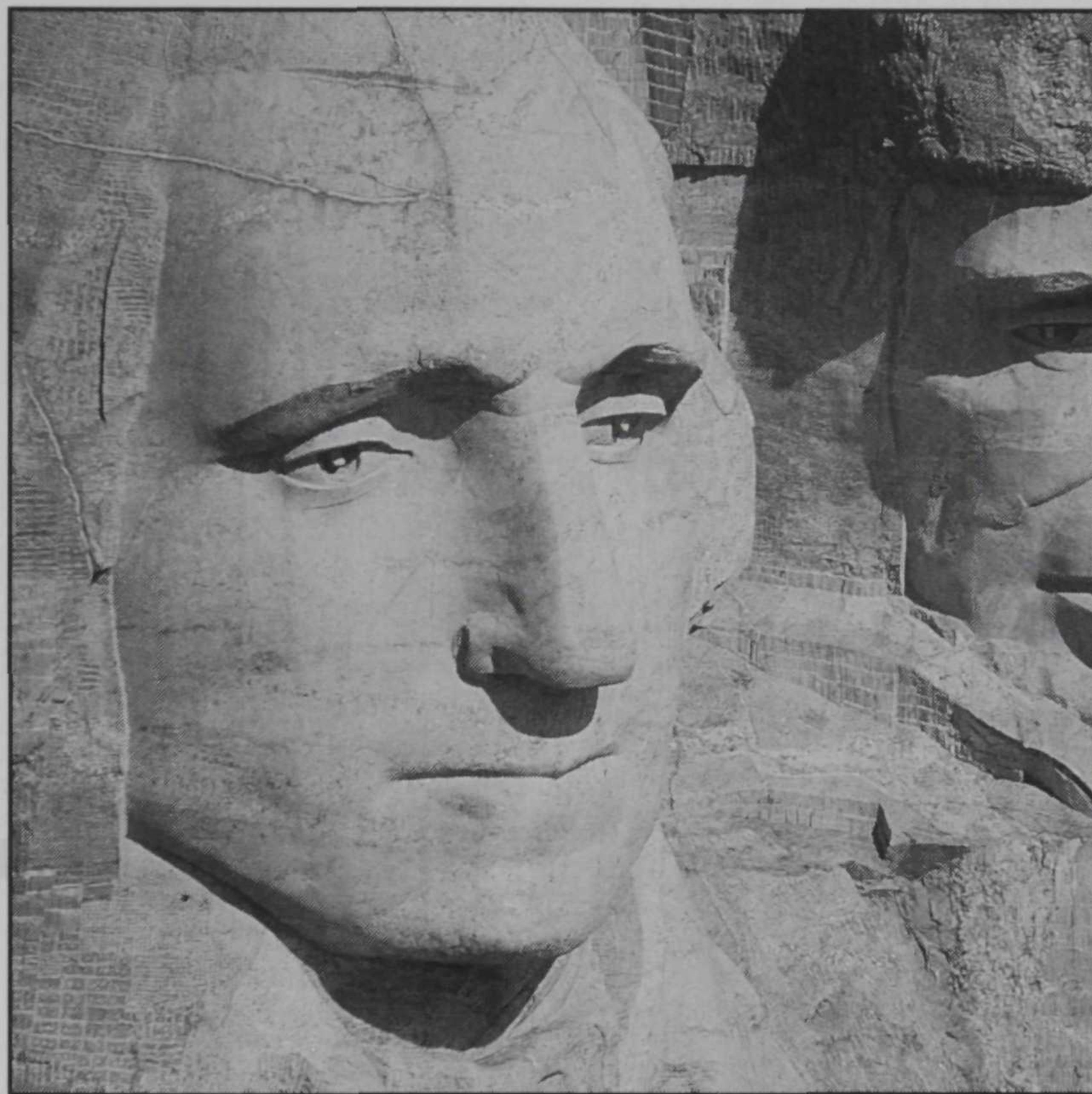
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MANAGING

Steering Safely Through A Crisis

By Lynn Woods

In early 1993, Diamond Courier Service Inc. was one of the largest messenger companies in Philadelphia. The firm employed more than 50 people and was racking up \$3 million in revenues. Yet behind the scenes, the situation was grim.

Claudia Post, who founded the company in 1990, took care of sales and marketing, and her partner was to manage the financial side of the business. Gradually, Post became aware that the firm was running out of

including the office plants, taped music that played over the phone when customers were on hold, and client giveaways.

Post also hired a financial consultant who helped her devise a budget. She called her creditors and informed them of the company's cash-flow problem, promising to pay them in full when she could. She cut her staff's salaries and sold shares of her personal stock for cash. Because she had always dealt honestly with her employees,

For a company to recover from misfortune—whether insidious or sudden—it must be prepared, face the facts, and react properly.

explosion. Yet Post's experience is more typical. A crisis is usually triggered by more-commonplace developments.

For example, says marketing consultant John Campbell, "if you have a key employee at a high management level who retires or jumps ship to the competition, it's a huge blow. Yet companies tend not to deal with that as a crisis." Campbell, a partner at Vision Marketing & Management Inc., an Overland Park, Kan., consulting firm, says



PHOTO: ©SAL DIMARCO—BLACK STAR

When she realized that her courier service was running out of money, Claudia Post took steps to right it.

money. "We had no bottom line," she says. "The fixed overhead was too heavy; things weren't priced right."

Faced with the prospect of going bankrupt, Post took action. She initiated the painful process of dissolving the partnership, and she tackled the financial side of the business herself. She and some key employees "went through the company with a fine-toothed comb," she says.

She eliminated bicycle deliveries, one of the three delivery methods the firm had used; today the company's messengers deliver packages only by vehicle or on foot. And she got rid of all extraneous expenses,

customers, and suppliers, she says, she was able to retain their support.

Today, Diamond is half the size it was in 1993, but it's on the upswing. After losing money in 1993 and 1994, it broke even in 1995 and is now profitable. The lesson is "to know the numbers," says Post. "You must understand how to read an income and balance sheet. That's the bellwether of what you do."

Ordinary Beginnings

Most business owners think of a crisis as a sudden, devastating event, such as a tornado, a death in the workplace, or a plant

the loss of a key customer also can threaten a small business. "In the marketplace, a customer looks at that and says, 'Gee, something must be wrong there.'"

Crisis management, a term used often during and since the drug-tampering scares in the 1980s, has become integral to the operations at many large corporations. Many either have in-house specialists or hire crisis-management firms as needed.

Effective crisis management is not just for the big guys, however. Small companies

Lynn Woods is a free-lance writer in Kingston, N.Y.

MANAGING

need to be prepared for crises, too, although many may not realize it. Owners of small firms who are caught up in day-to-day operations and whose personal lives are deeply entwined with the company may lack perspective on the kinds of problems that can truly threaten the business. Moreover, seeing isn't always believing.

"Denial is the No. 1 killer in a small business," says Ian Mitroff, co-author of *The Essential Guide to Managing Corporate Crises* (Oxford University Press, \$30). "You can absolutely believe that a crisis only happens to certain businesses."

The temptation for many small-business owners in Post's shoes would be to ignore the writing on the wall—until it is too late. Hence, expanding the definition of a crisis to include the type of gradual event that almost caused the demise of Diamond Courier is the first step that small companies need to take in effective crisis management.

Burnishing An Image

A gradual crisis can come in many forms. For Micro-Comm Inc., an Overland Park-based manufacturer of computer-controlled systems for the waste-water industry, the threat came in the form of an image problem that hurt sales. In 1994, Jim Cote, Micro-Comm's vice president, hired Campbell's consulting firm to identify the source of the problem and correct it.

Vision Marketing interviewed Micro-Comm's customers and discovered that their reactions to the company's products ranged from very positive to downright hostile. In particular, the members of the Kansas Rural Water Association, a major market for the company's products, had negative perceptions of Micro-Comm dating to the 1970s, when the firm's technology was first developed. Since then, early problems with the technology had been resolved, but the water association's members didn't know it.

To correct the misperceptions, Micro-Comm put together a one-day training session at the water association's annual conference, informing members about changes in the products, the improved technology, and Micro-Comm's direction. The session was a resounding success.

A follow-up survey by Vision Marketing a year and a half after it had been retained

showed that customer relations had improved dramatically. Not coincidentally, Micro-Comm's sales doubled in 1995.

Crisis Control

Gradual or not, once a crisis has been recognized, the immediate need is to stabilize the situation, says Michael Sitrick, chairman and CEO of Sitrick and Co., a crisis-management and communications firm in Los Angeles. "You have to be able to identify the problem and the solution. What do you need to do to make the company viable in the current situation?"

For Edward Abbott, a partner at ABZ

But the transition wasn't easy.

"We had to make a conscious decision to do something else, which is hard to do because success is based on past experience," says Abbott. During the six-month crisis, he lived off his retirement savings, traded in his expensive office space for bare-bones digs, and, after his firm was rejected by three banks, called on a former college classmate—now a banker—for a loan.

In some instances, the crisis not only is clear but also makes headlines in the local press. That's when a public-relations consultant can be a helpful ally. Although such

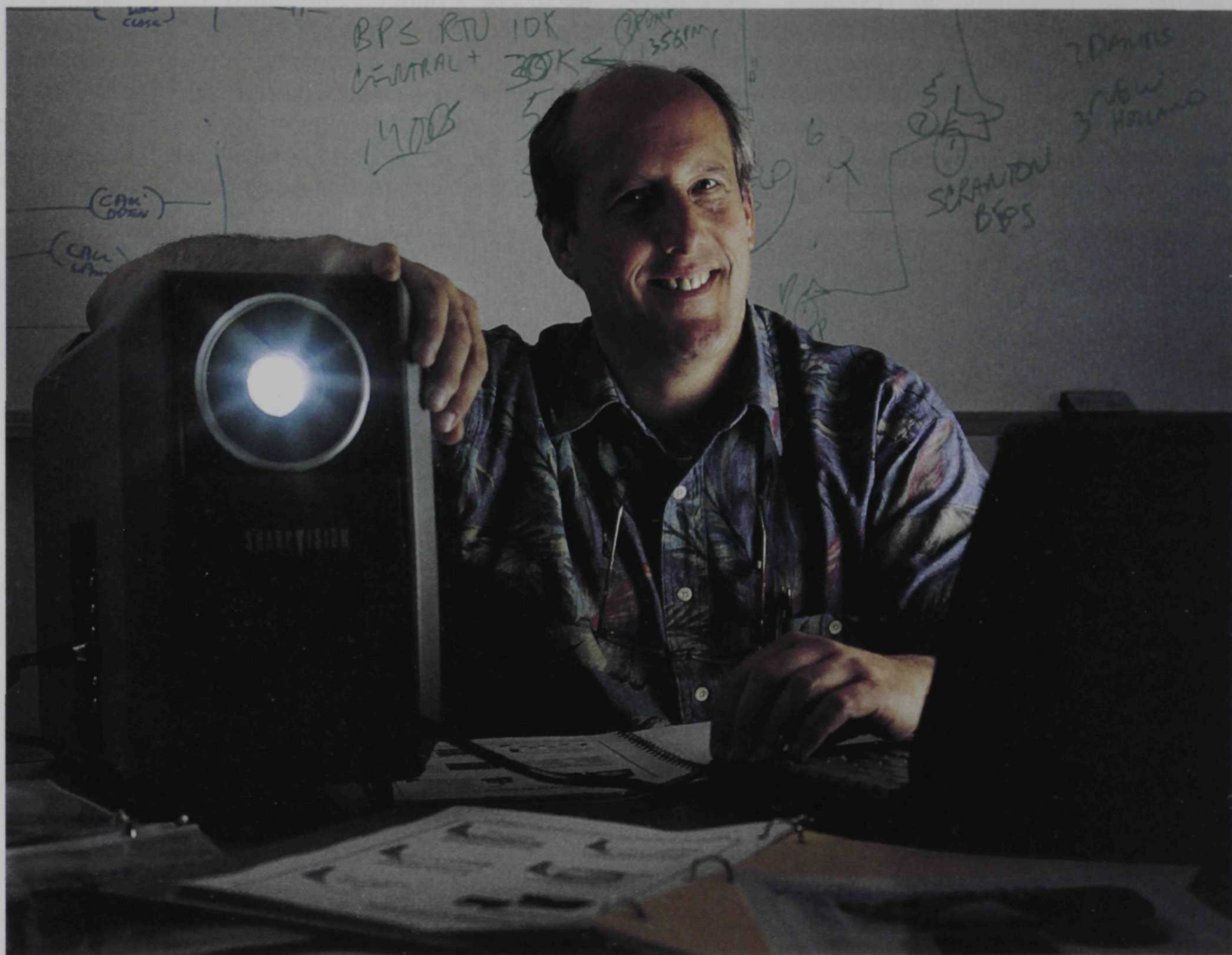


PHOTO: ©CHUCK KNEYSE—BLACK STAR

An image problem was hurting sales for Micro-Comm Inc., so Jim Cote, the company's vice president, hired a consulting firm to find the source of the problem and correct it.

Inc., an engineering consulting firm in Chantilly, Va., crisis survival meant changing the direction of the company. In the 1980s, ABZ depended on lucrative consulting work for nuclear-power companies. But that work dried up in the early 1990s as power-generating utilities, trimming costs in anticipation of deregulation and stiffer competition, started cutting back on their use of consultants.

ABZ refocused its efforts on developing, producing, and upgrading a software version of a 1935 engineering text on pumping fluids, a text that remains an essential tool for mechanical engineers. The company is once again successful, with five employees.

services may be expensive, effective public relations can prevent a problem from turning into a costly lawsuit, or it may rescue a company from near-bankruptcy.

For example, three years ago, Sitrick's firm was called to assist with the bankruptcy proceedings of Purgatory ski resort, near Durango, Colo. The bank with which Purgatory had done business had recently been acquired by an out-of-state institution. The new bank, not used to dealing with a seasonal industry, refused to renew the resort's standing line of credit.

Aware of the importance of the ski industry to the local economy, Sitrick decided to contact the business editor at

The Denver Post. Within a few days after the paper ran a front-page story about the bank's refusal to provide Purgatory with credit, the bank agreed to renew the line of credit, extended it, and reduced the interest rate, says Sitrick.

Planning For The Unthinkable

Small firms are far more likely to go under because of a faltering partnership, a canceled line of credit, or negative customer perceptions than because of an all-out disaster, but that's not to say they shouldn't plan for the unthinkable.

In fact, because of their limited resources, small firms may be particularly hard-pressed to come through a calamity if they have no survival plans in place.

One small firm that did have such plans weathered one of the most tragic disasters in recent memory. Federal Employees Credit Union, a \$75 million, 33-employee nonprofit corporation in Oklahoma City, had offices in the federal building that was destroyed by a bomb on April 19, 1995. Although the bomb killed 18 credit-union employees and injured five others in addition to destroying the company's property, the credit union opened for business two days later in temporary office space.

The company's CEO, Florence Rogers, had survived the blast, and two other officers happened to be away from the building during the disaster.

Rock Island Group, an Oklahoma City technology-consulting firm with a branch that specializes in disaster recovery, took on the day-to-day operations of the credit

Small firms may be particularly hard-pressed to come through a calamity if they have no survival plans.

union, including an advertising campaign in which the 15,000 customers were assured that their money was safe. Rogers, meanwhile, focused on comforting traumatized employees, the families of those who had been killed, and customers.

Without a disaster-recovery plan, says Rogers, the company would have failed. A key element of the plan was

the off-site electronic storage of backups for all the credit union's records. (The records were updated daily; only four transactions were lost in the bombing, which occurred soon after the start of the business day.) And because a complete, updated set of the firm's policies had been stored at the home of a board member, volunteer workers were able to refer to written guidelines in carrying on operations.

Many of these volunteers came from other credit unions and knew the Federal Employees Credit Union's computer system. At a recent forum of small-company owners in San Francisco, Rogers suggested that each of them acquire a "sister company," similar to their own and located in a different part of town, that could assist in operating their firms in the event of an earthquake or other disaster.

At the very least, small-business owners should sit down with their employees each year for about half a day and walk through a worst-case scenario, says Bill Towler, CEO of Rock Island Group. "They should ask themselves, 'What are the most important processes we need to recover?'"

Small companies also should establish a line of authority in the event of a disaster and designate someone to talk with the news media. A company "should speak in one voice," says Steve Erikson, spokesman for the Public Relations Society of America, a New York City-based association for media- and public-relations professionals. Staff members should exchange home phone numbers and determine who will speak for the company when it needs to make a comment at 7 a.m., for example.

Small-business owners also should "build into their overall strategic plan an annual review of the contingency plan," says Erikson.

Being prepared is key. Whatever form a crisis takes, "the chances of having one are likely," says Vision Marketing's Campbell. For small companies especially, making the right decisions about how to handle it can mean the difference between thriving and going out of business. **NB**



To order a reprint of this story, see Page 57.
For a fax copy, see Page 5.

Where To Get Help

Many small businesses in crisis turn for help to the nearest Small Business Development Center. The centers, administered by the Small Business Administration, provide counseling, technical assistance, and training services at no charge.

There are centers in every state and a total of 950 service locations. Each center operates in conjunction with a local partner, such as the chamber of commerce, a university, a library, or a trade association. Funding is provided by the SBA in conjunction with state and local sources.

For more information, call the SBA at 1-800-8-ASK-SBA (1-800-827-5722). The SBA also has a home page (<http://www.sbaonline.sba.gov>) on the Internet's World Wide Web.



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Source: Mendelsohn Affluent Survey, 1995

Nation's Business
The Small Business Adviser

TRAVEL

Health Coverage Overseas

By Peter Weaver

Before your next business trip out of the country, consider this: Will your medical insurance cover you if you require treatment for an illness or injury while you're abroad?

More than a million American travelers got sick or were injured in other countries last year, and many required hospitalization, according to insurance industry figures.

But some medical plans may not cover doctor bills or hospital charges abroad. And even if some of these expenses are covered, the insured person may have to pay the tab and file a claim after returning home.

One big-ticket expense that is seldom covered by standard health insurance is medical evacuation, "and this can be exceptionally expensive," says insurance broker Ralph Davis, president of Travel Insurance Services, in Walnut Creek, Calif. "It can easily cost \$10,000 to \$15,000 to get you and a medical attendant home on a commercial airliner that has to be reconfigured [seats taken out] to accommodate a stretcher," he says. If you require a private air ambulance to jet you home, it could cost over \$50,000.

Davis' firm packages and distributes medical travel insurance to insurance agencies nationwide. Another player in the growing field of providing medical coverage for overseas travelers is Baltimore-based Medex Assistance Corp.

"From what we're seeing, small businesses are doing much more traveling abroad these days," says Patricia Tarrant, Medex's marketing director, "and many of them don't have the resources to deal with air evacuation or other costs not covered by their medical plans." Through command bases in Brighton, England; Beijing; and Baltimore, Medex can tap into a list of air-ambulance companies and some 30,000 doctors and hospitals around the world.

Another leading company in this business, International SOS Assistance, in Trevoise, Pa., says that last year it helped arrange 8,500 medical evacuations and repatriations (return of bodies).



PHOTO: ©DAVID R. FRAZIER

A medical emergency overseas can be a major headache if your insurance doesn't cover the costs of treatment.

Medical packages for travelers are also being sold by large insurers—for example, Mutual of Omaha's Overseas Care Medical Insurance plan is available in major airports—as well as by some travel agencies and the American Automobile Association.

In addition, those who have the American Express Platinum card or certain Visa Gold and MasterCard Gold cards can get at least some medical assistance abroad through their card issuers.

Typically, under travel-insurance plans, the insured receives a card with a toll-free number to call if an emergency occurs. In countries where the toll-free number doesn't work, there's another number on the card for making a collect call.

"We have 24-hour telephone access to our nine multilingual physicians," says Dr. Tom Briggie, medical director for USA Medical Services, a Miami-based company that specializes in medical insurance for travelers. USA Medical's doctors talk directly with foreign physicians on the scene to work out a care plan and monitor progress.

A medical policy for travel abroad typically costs a few dollars a day. Travel Insurance Services' Davis offers a basic package, InterMedical, for about \$3.25 a day per traveler. Benefits include up to

Several companies offer specialty insurance to help travelers cope with medical emergencies abroad.

\$25,000 for medical expenses (hospitals, doctors, medication), up to \$50,000 worth of air-evacuation coverage, \$10,000 for an accidental death, and \$7,000 for repatriation. A \$5-a-day policy covers up to \$100,000 in medical expenses, \$75,000 for air evacuation, and \$100,000 for accidental death.

Deductibles on such policies range from \$25 to \$100, and some policies have coinsurance requirements.

"One of our customers, doing some business in Mexico, severely injured his back, and we got him immediately checked into the best hospital in Mexico City," says Briggie. When the back injury was stabilized, the businessman was flown to a medical center in Houston for further treatment. "We may have saved his life," Briggie says, "and I know we saved him

a lot of money."

The State Department's free Consular Information Program describes health conditions in specific countries and provides a partial list of medical-assistance companies, including their toll-free numbers. You can access this information with your fax machine (using the fax telephone to receive oral instructions) by calling (202) 647-3000. Or you can get the information at <http://travel.state.gov> on the Internet.

If you decide to buy a plan for overseas health coverage, be sure that you first find out the insurance provider's reputation and its level of expertise. Ask the company to provide business-customer references, and get the name and financial rating of the insurance company standing behind potential claims.

Find out if the medical-assistance company has local representatives at your foreign destinations or if it has a good database of English-speaking doctors and hospitals.

Ask if there are any coverage restrictions or benefit limits. And check to see if there is payment verification or some sort of guarantee so you won't be detained at the hospital door.

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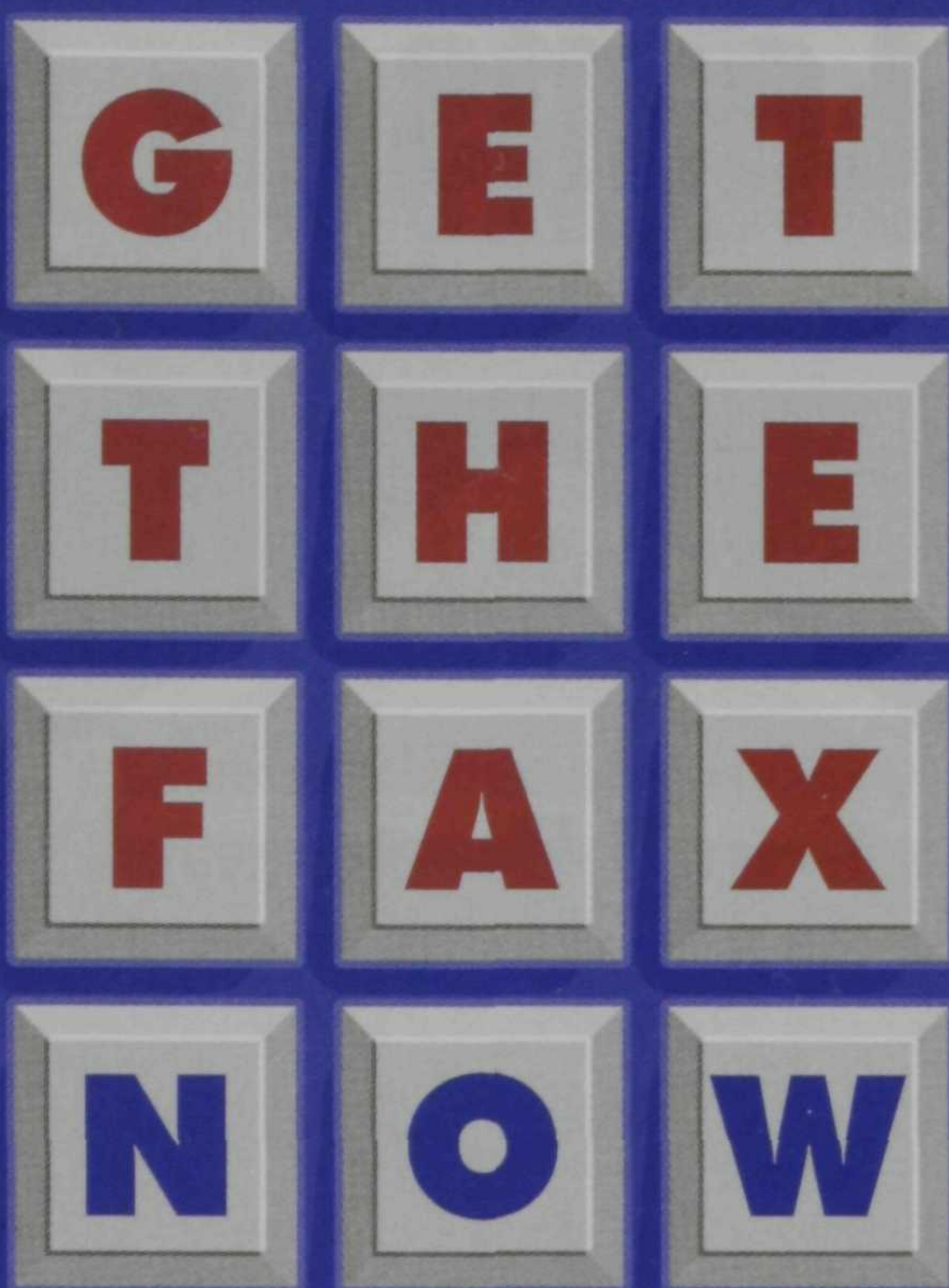
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FINANCE

Less Paperwork, More Bank Loans

By J. Tol Broome Jr.

A revision of federal regulations on bank loans is nudging banks to make more loans to small firms as it cuts paperwork requirements that were defeating the law's intent.

The revised regulations, which took effect Jan. 1, establish new enforcement guidelines for the Community Reinvestment Act (CRA), which Congress passed in 1977 to "encourage banks and thrifts to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods." The CRA requires banks to show that they actively attempt to meet the credit needs of all members of their communities, including small companies.

Major violations of CRA rules can result in branch openings being stalled, merger attempts being blocked, and even the closing of offending institutions.

Over the years, the CRA regulations had become much more focused on documentation of efforts to make loans than on actual loan making; in effect, the thicker a bank's CRA files, the better its rating. As a result, President Clinton last fall directed the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., and the Office of Thrift Supervision to overhaul CRA regulations, shifting the emphasis from paperwork to performance.

Cal Cleveringa, vice president of American State Bank, in Sioux Center, Iowa, says the decrease in documentation requirements will surely increase small-business lending. "The new CRA guidelines will enable me to focus more on lending rather than on paperwork for CRA," says Cleveringa, whose bank has \$163 million in assets. "It's certainly a move in the right direction."

Under the revised regulations, banks will now be rated according to their actual lending activity. The new rules also establish separate tests for small banks (those with assets under \$250 million) and larger



ILLUSTRATION: MICHAEL ROOK

banks. Small banks will now be examined by the applicable banking agency under a straightforward five-area system with a heavy emphasis on lending to small companies. Larger banks will also be subject to a new test that emphasizes small-business lending.

The evaluation areas for small banks now are:

- **Loan-to-deposit ratio.** Banks score high for lending a high percentage of their deposits.

- **Percentage of loans in the bank's market area.** This is a measure of the bank's effectiveness in lending to those who live within its deposit area.

- **Loans originated for community development and small-business purposes.** Small-business loans are worth more points than they were under the previous system.

- **Geographic and income-level diversity of loans made.** Banks score points for lending to low- and moderate-income customers.

- **Response to written complaints by consumers.** Points are awarded for prompt, efficient attention to customers' problems.

In CRA examinations conducted before this year, all banks were graded according to a 12-area documentation system that included extensive paperwork requirements. CRA examinations often took

A change in federal rules is encouraging lending to small companies.

two weeks or longer—even for small banks. Examinations for large banks often took several months. Because of the shift from documentation to results, a CRA exam for a small bank now may require only a few days.

Larger banks—those with more than \$250 million in assets—now must demonstrate under a new three-part CRA test a diverse geographic distribution of small-business loans and lending practices that are "innovative and flexible."

In addition, larger banks now must track and report small-business loans two different ways. The first is by the number and dollar amount of loans extended to businesses with annual revenues under \$1 million. The second is by the number and dollar amount of all loans in three categories—those under \$100,000, those from \$100,000 to \$250,000, and those of more than \$250,000.

In revising the rules, the regulators said their aim was to require larger banks to devote more resources to making small-business loans. Bank managers have taken notice.

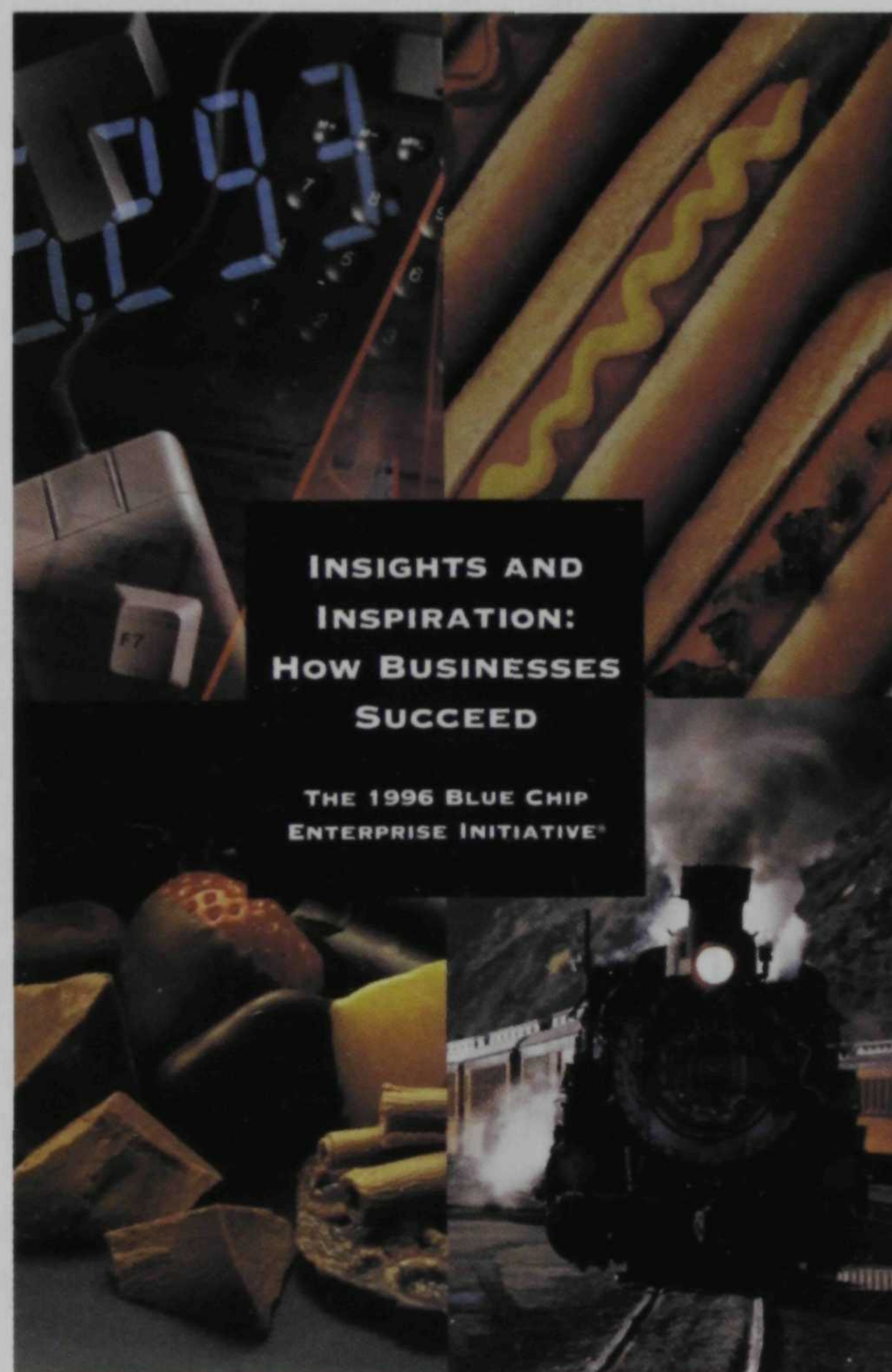
"We are focusing on making a proactive effort to deliver products that will fit the small-business market and make money for the bank in the process," says Bill Holt, head of the Durham office for Wachovia Bank of North Carolina, which is one of the largest small-business lenders in the Southeast.

Not everyone in the banking business is happy with the revised CRA regulations. Sharon Humphreys, vice president of U.S. consumer CRA compliance with Citibank in New York City, says that although the paperwork system may have been simplified, the new reporting requirements are still "onerous and costly." Humphreys acknowledges, though, that the CRA revisions will place more of a spotlight on small-business lending across the country.

"With the data-collection requirements, there will be more emphasis on comparisons with competitors in the examination process," says Humphreys. "This will cause many banks to increase their focus on small-business lending."

J. Tol Broome Jr. is a loan administrator and a CRA officer at FirstSouth Bank in Burlington, N.C.

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This program, sponsored by MassMutual, Nation's Business and the U.S. Chamber of Commerce, enables business owners to tell their stories of hardship, disaster, and risk — and of tremendous success. Judging is done by an independent panel of experts in enterprise, and up to four "Blue Chip Enterprises" are selected from each state. Since 1990, nearly 1,200 businesses have been recognized as Blue Chip Enterprise Initiative honorees.

NOMINATION REQUIREMENTS:

Any for-profit business that has been in operation for at least three continuous years and that employs between 5 and 300 persons is eligible to participate. Independently owned franchises are eligible. All nomination forms require the signature of at least one of the company's principals.

APPLYING IS EASY — 4 SIMPLE STEPS:

STEP 1

BUSINESS PROFILE: It is important to fill in this section as completely as possible — we want to establish a relative benchmark for evaluating your success. Different geographic markets and industries will have differing competitive pressures, and we want to factor in those differences.

STEP 2

THE STORY OF YOUR CHALLENGES: Follow the instructions on the form. You may want to describe the impact these challenges were having on your business — and any projected impact you were anticipating if the problem continued unaddressed (i.e., lower sales/earnings, reduction in staff, etc.).

STEP 3

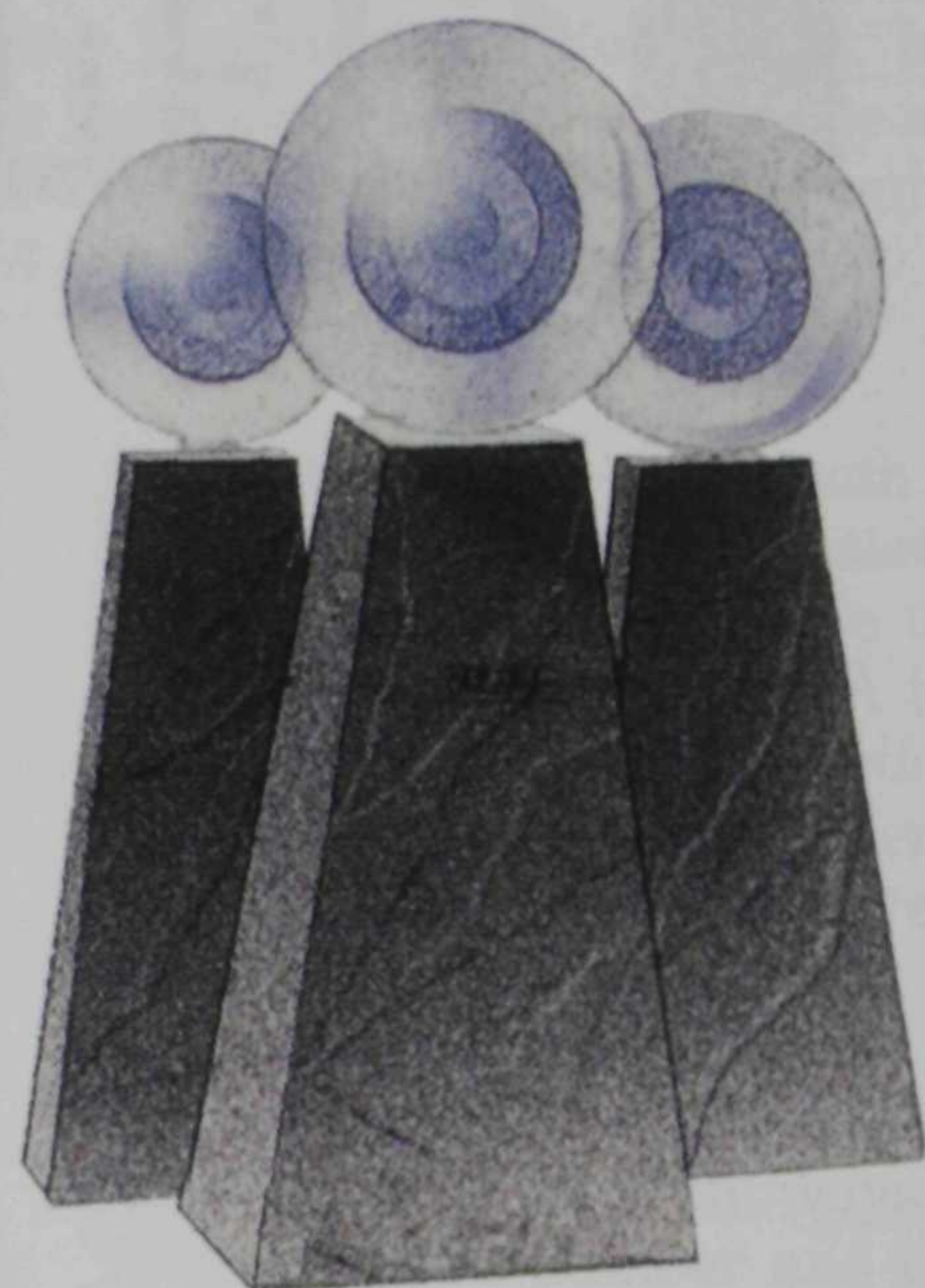
THE SUCCESSFUL SOLUTION: Your explanation will help us select the 200 honorees. The key to completing your nomination form is documenting how your company managed its resources to solve its problems.

STEP 4

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JUST FOR SENDING YOUR NOMINATION FORM to us, you will receive a softcover book with case studies of the 1997 honorees!



BUSINESS PROFILE**STEP 1**

Name of Owner/Title _____

Company _____

Address _____

City/State/Zip _____

Business Telephone _____ Fax Number _____

Alternative Contact Name/Title _____

Brief Description of Products or Services _____

Type of Business

☐ Manufacturing☐ Retail☐ Wholesale☐ Construction☐ Services☐ Finance☐ Real Estate☐ Communications☐ Transportation☐ Professional☐ Other (describe): _____

Annual Sales (optional) _____ Number of Employees _____ Year Established _____

Source of application: ☐ Nation's Business ☐ First Business
☐ MassMutual Agent ☐ Business Colleague ☐ Other

Owner's Signature _____ Date _____

STEP 2**THE STORY OF YOUR CHALLENGES** (500 words or less)

Please tell us about the major challenges that threatened your business—or opportunities you created. These may include new competition, loss of major client, changes in the industries/geographic markets you serve, loss of key personnel or capital funding, rapid growth, natural disasters, etc.

STEP 3**THE SUCCESSFUL SOLUTION** (500 words or less)

Tell us how you made your business succeed. Please describe the resources and tactics you used to overcome your business challenge(s).

We are looking for insights into the management of your company's resources such as quality assurance, marketing, human resources, community relations, financial management and technology. Also detail the changes in your company's performance as a result of implementing your solution(s).

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OBSERVATIONS

If I Only Knew Then What I Know Now

By Sharon Nelton

When you're a family-business owner of a certain age, it's not unusual to look back and think about what a difference it would have made if you had only known then what you know now. Mistakes could have been avoided, relationships saved, surer paths followed. Maybe.

Curious about the thoughts of more-experienced business leaders, *Nation's Business* asked 10 family-business owners and former owners around the country what they wish they had known 25 years or so ago that they know now.

Here are the lessons they wish they had learned earlier in life:

Separate your business life from your personal life.

"Greg," a former New England business owner who asked not to be identified, inherited a business 50-50 with his younger brother. They were in their early 30s at the time, and Greg was the CEO. Greg thought he needed to look after his brother.

Now, 30 years later, he knows that he made a mistake by treating his brother as a brother in the company rather than as a professional colleague. He looked the other way when his brother didn't work hard enough—or when he borrowed money from the company and didn't pay it back. "He had six kids, after all," Greg says.

But in retrospect, Greg says he knows he didn't hold his younger brother accountable.

They've gone their separate ways now. After many disagreements that they couldn't resolve because neither had legal control of the company—and after a battle in court—the younger brother finally

bought out Greg. As Greg describes it, their relationship is now "nonexistent."

A Minnesota business owner, Kenneth R. Larson, 53, says that 25 years ago he had his priorities wrong. Larson is the president and CEO of Slumberland, Inc., a home-furnishings retail chain based in Little Canada, Minn. The firm does more than \$100 million a year in sales.

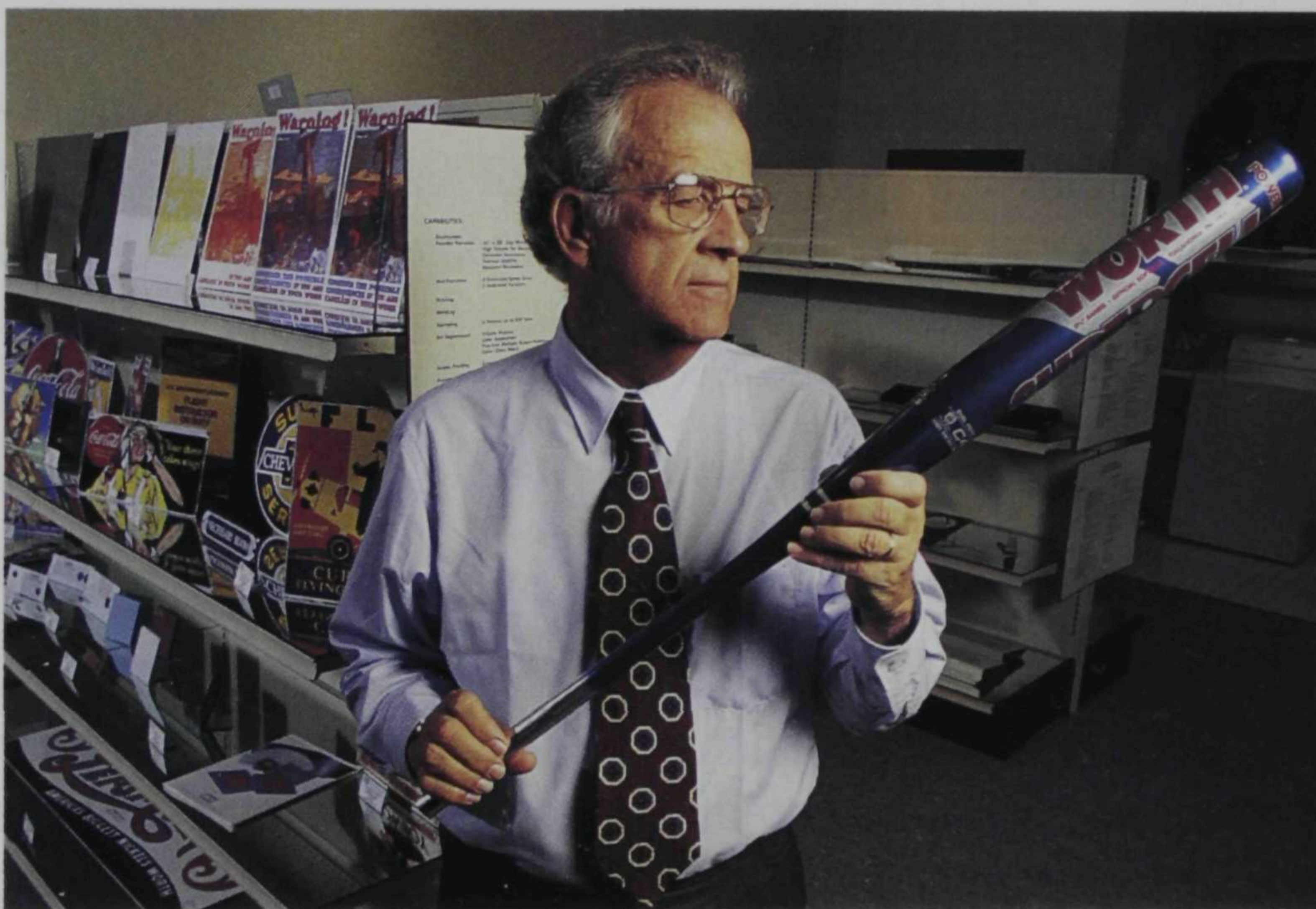


PHOTO: ©JIM CALLAWAY

An outside board is essential, says Leo Hawk, who inspects a decorative stamping done by his Superior Metal Products on another firm's bat.

As a younger man, Larson says, "I had the success of the business at the top of the heap." He thought nothing of calling up at the last minute to say he wouldn't be home for supper, or showing up an hour late to find his five children waiting and his wife frustrated.

After much reflection, he says, he concluded that his emphasis on business was "out of whack," and he made some new commitments to his family.

"We can delude ourselves to say that we work hard for our family," he says today, "but in many cases, that's not really the truth. It is more of a self-centered thing

that we're working for—pride or ego, for example."

Would his business have suffered if he had made his family a priority earlier? No, he says, it would have been just as successful. "I am a competitor," he adds, "but business is not the most important thing."

At 39, Bill Karol is the youngest leader interviewed for this article, but he seems

to have understood intuitively early on the hazards of not being able to separate business from family.

Karol and his two brothers inherited the family business—a group of manufacturing and distribution companies—when they were all in their mid-20s. They were remarkably successful, expanding the business from about \$150 million in annual sales to nearly \$1 billion in several years.

But Karol says that not long after they took over the business, it really troubled him when their families gathered together one Thanksgiving and the young men spent the whole time talking about the business.

"It left me with a cold feeling after I went home that night, and that's when I decided that I wanted to continue to maintain a family life in a relationship with my brothers as brothers—as opposed to being just business partners," says Karol.

He shared those feelings with his brothers and put them on notice that eventually he wanted them to split the family partnership into separate businesses—which they did three years later. Karol now runs Koda Enterprises Group, a \$150 million diversified holding company in Waltham, Mass., and his brothers have their own companies.

And to this day, he notes, he and his



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FAMILY BUSINESS

two brothers are still friends.

Karol's experience leads to a second precept:

Professionalize your business as it grows.

Many successful family-business owners urge creation of a board of directors or an advisory board with outsiders as members—preferably other companies' chief executives or senior managers from whom you can learn.

Several business owners interviewed for this story say they wish they had done so earlier. One of them is Leo J. Hawk, chairman of Superior Metal Products, Inc., a Lima, Ohio, company whose output includes decorative hardware for appliances and office furniture.

Hawk, 63, is in business with a brother. They have not always seen eye to eye, Hawk says, and when conflicts escalated, they knew they had to do something.

Hawk heard of Léon A. Danco, the nation's pioneering family-business consultant, and in 1984

Hawk convinced his brother that they should go to Cleveland to see him. With Danco's help, they put together a board made up of senior executives of major corporations. The board has helped them mediate their differences and establish direction.

"It really saved the business and made us grow," says Hawk. When the board was brought in, Superior Metal was a \$38 million business. Today, it is a \$250 million company with 2,000 employees.

Hawk is sold on the idea that a business owner needs some form of peer review, and he says the best way to get it is to have an outside board.

Robert "Rob" Allen Sprouse II agrees, and he talks about what he wishes his father had known. Sprouse was the third-generation CEO of a public company that no longer exists—Sprouse-Reitz Stores, a chain of variety merchandise stores. The company was based in Portland, Ore., and in its heyday it had 380 stores throughout the West, over \$250 million in annual sales, and more than 3,000 employees. The Sprouse family had voting control.

Sprouse believes the company failed to adequately develop nonfamily managers and that his father stayed at the helm long past the time he should have retired. Serious problems were surfacing when

Sprouse became CEO 10 years ago. Among other things, Sprouse-Reitz wasn't prepared to compete with Wal-Mart Stores, Inc., and was forced to go out of business.

Under the laws that govern public companies, Sprouse-Reitz did have a board of directors, but until 1985 all members were insiders—family members and close advisers.



PHOTO: ©TODD BUCHANAN

Get outside experience, advises manufacturer Christine Roche, with her father, William, left, and brothers William Jr., rear, and Michael.

ers. Rob Sprouse added talented outsiders to the board, but he feels it was already too late for the company to benefit from that move. "We should have done it a lot sooner—a generation sooner, perhaps," he says.

According to many business owners, forming an outside board will take you to the next step: professionalizing your company. Leo Hawk says that because of his board, he now has policies and rules in place that will stand Superior Metal Products in good stead for a long time. He cites as an example a policy governing the circumstances under which family members are brought into the company and the qualifications they must have.

Says Rob Sprouse: "You need the outside view to evaluate the strategic positioning of the business and critique the plan."

When there's a board, these business people say, the CEO becomes more accountable and professional because now the board is "the boss." Yet if you have a privately held company, you can take comfort in the fact that you are still the final decision maker.

Communication is key.

If you are weak at communication, experienced business owners say, you need to find a way to shore it up.

Because Bill Karol and his brothers were going through some difficult changes and were feeling some resulting stress and strain, they called in a facilitator to help them get the issues out on the table. Unfortunately, the first consultant they brought in proved disastrous.

"We almost ended up killing the guy,"

says Karol. One problem, he explains, was that the consultant had his own biases. He thought, for example, that the two younger brothers would just assume that the older brother was going to take charge.

But the two younger brothers didn't assume that at all, says Karol; because their father had always treated them all as equals, they believed themselves to be equals.

The brothers did not give up. They did some research and found a consulting team that really could help them with the communication problems. As a result, Karol says, when he and his brothers did break the family business into separate parts, they were

able to do so without hard feelings.

You have to have the right advisers.

As the Karols' experience suggests, you need to do some homework and not necessarily take the first adviser who comes along.

John Bradford, who recently retired as head of Bradford Roofing and Insulation Co., in Billings, Mont., says the same thing. He recalls that when his father, who founded the business, wanted to do estate planning, he went to an attorney who was a family friend. Though the attorney was a good defense lawyer, he did not prove to be a good estate-planning lawyer; he regarded his client as someone who needed to be defended from his son rather than as a father who was trying to pass something on to the next generation. The result, says Bradford, was an estate plan that took 10 years to unscramble.

Get outside experience.

Christine M. Roche, 45, is the president of Acme Screw Co., a \$22 million, 225-employee company in Wheaton, Ill. "If I knew I was going to be in this business this long, I would have worked in another company first," she says. It's not that she has made a lot of bad decisions—in most instances, she says, she probably would have run the

company in much the same way.

She went into the company straight out of college, however, and has been there ever since. So, she says, she had almost no exposure to other businesses and the ideas they could offer. She also worried that others in the company would think that she had been handed her job just because she was the boss's daughter.

In part to prove herself, she went back to school and earned an MBA before taking over the company helm eight years ago.

Understand the business side of your business.

That may seem obvious, but it wasn't so clear to Bobbie Dore Foster, 57, editor and co-owner with her husband, Bernard Foster, of the Skanner Group Newspapers, headquartered in Portland, Ore. The Fosters' two newspapers, published in Portland and Seattle, present news "from an African-American perspective," Bobbie Foster says.

As an editor, she thought it was enough to have journalism training and to let her husband deal with the financial end of the business. But as time went on and she took on more responsibility, she says, she came to see that financial management and personnel management were "invaluable skills." If she had it to do over again, she says, she would have taken courses in these areas "on the front end."

She began to sit in on her husband's meetings with their accountant so she could ask questions and learn, and she started paying more attention to the reports generated by the bookkeeper. "I really saw what I had been missing all along," Bobbie Foster says. Now, she says, she is a more professional manager with a sharper ability to make decisions that take into account what is happening on the financial side of the company.

Learn all you can about family-business dynamics.

Harry G. McNeely, chief executive of Space Center Enterprise, a St. Paul, Minn., company in real estate and other businesses, describes his age as being "plus-70." He says he wishes he had understood years ago how each family member may have a different expectation of the business and how assets could have been divided earlier to meet the individual desires of family shareholders. It just never occurred to him then that such steps could be taken, he says.

As it was, his sisters and a cousin were not cashed out until 11 years ago, and he and his brother divided their assets six years ago.

If family members had taken such action 25 years ago, McNeely says, "I'm sure each of us would have probably been a lot

more productive and entrepreneurial than we were." As he sees it, each individual could have used his or her assets to create a business.

Leo Hawk says discovering Léon Danco's books was a revelation, and he wishes he had known much earlier what he knows now about how family businesses work.

He notes, however, that the current body of knowledge on how family businesses function wasn't even available 25 years ago. Only in the past 15 or 20 years—and particularly in the past decade—have family businesses come under study as family businesses. (See the calendar on this page for a list of upcoming family-business education events.)

Take time to smell the roses.

That's what Donna Sitz, a cattle rancher in Harrison, Mont., wishes she had done for herself and what she now wishes her children, all adults, would do.

Sitz took over Sitz Angus Ranch when her husband was killed in a tractor accident seven years ago at age 52.

She recalls how hard ranching was for them as a couple in their early years and how hard it still is today. "On a ranch," she says, "you can work 24 hours a day and never catch up." As a result, you may not take a minute to notice a beautiful sunrise or enjoy Montana's wondrous landscape.

But "life is so short," she says. "When I look back, I wish we would have taken a little more time for ourselves."

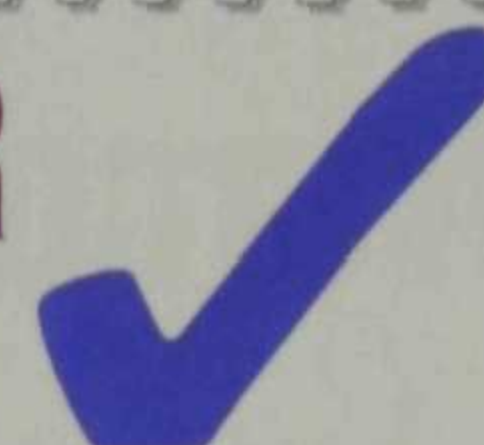
If you ask family-business owners what they wish they had known when they were younger, don't expect them to agree with one another. For example, one business owner takes enormous pride in having treated his sons in the business totally equally, down to the square footage of their offices.

But another says it was his father's decision to leave the business to his two sons 50-50 that led to the decline of the business and the deterioration of the sons' relationship.

In some instances, there seem to be lessons hidden behind the lessons actually expressed. Behind the lesson about the 50-50 inheritance, for example, lies the message that as family-business leaders make major decisions—such as who will inherit what someday—they need to use their imagination to see what the consequences of their decisions will be in the next generation and beyond.

The inclination to look back and say "what if?" runs deep in the heart of any thoughtful business owner. But if you're still young and you're smart, you can listen to what the older family-business leaders around you have to say and benefit from their experience.

MARK YOUR CALENDAR



Sept. 12, Holyoke, Mass.

"Assuring Healthy Communication in the Family Business" is a session aimed at helping families discuss difficult issues. Call Ira Bryck at the University of Massachusetts Family Business Center at (413) 545-1537.

Sept. 12, Austin, Texas

"Developing a Sturdy Family Business Structure" is a half-day workshop offered by the Baylor University Institute for Family Business. Call Susan Meacham at (817) 755-2265.

Sept. 13, Parkersburg, W.Va.

"Is There Life After Family Business?" is a one-day seminar sponsored by the local Rotary Club and conducted by Richard L. Haid, a professional "adult mentor." Call Priscilla Leavitt at (304) 422-7300.

Sept. 16, Washington, D.C.

"The Right Way To Pass On the Dream" is a half-day seminar on the transition from one leader to the next in a family firm. Call the George Washington University Center for Family Enterprise at (202) 994-9150.

Sept. 19, Dallas

"Smart Growth" is a half-day seminar on sustainable growth in family enterprises. Call Susan Meacham at the Baylor University Institute for Family Business at (817) 755-2265. Ask about other topics and locations.

Oct. 10, Northampton, Mass.

"Leadership Skills in the Family Business" is a daylong workshop sponsored by the University of Massachusetts Family Business Center. Call Ira Bryck at (413) 545-1537.

Oct. 16-19, Philadelphia

"Power Up the Family Business" is the theme of the annual conference of the Family Firm Institute. It will feature sessions on technology and the family business, internationalizing family enterprises, and barriers to developing minority businesses. Call (617) 738-1591.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

PLANNING

Overcoming A Major Obstacle To Succession

By John L. Ward and Craig E. Aronoff

The need for personal financial security for the senior generation is one of the biggest and most common obstacles to succession in family businesses.

We rarely see parents "letting go" of authority and control if they don't feel financially secure themselves. Their continued needs very often conflict with the business and personal needs of the next generation. If the parents cannot truly let go, family and business frustrations often boil over.

The key to successful succession is very proactive planning to provide lifetime financial security for the older generation. And the earlier it starts, the better. One financial planner we know puts it clearly: "Good planning for retirement takes a lifetime. Unfortunately, most people don't think about retirement until it's too late. Then they're boxed into predicaments that are almost impossible to solve."

Most successful family businesses have a net worth (book value) of \$1 million to \$2 million. Accumulating profits over the years to build such a significant net worth is a proud accomplishment. But businesses of this size face a very difficult problem.

When a business is worth less than \$1 million, the older generation usually retains ownership all their lives to assure personal income. Since up to \$1.2 million of a married couple's estate can be passed to the next generation free of estate tax, holding does not affect tax liability. When family members receive adequate information to understand the situation, they typically accept it.

If a business is worth \$5 million or so, then incentives to make gifts of stock to the next generation are huge because of the expense of estate taxes. Moreover, such businesses often have the capacity to purchase the parents' shares, providing them with excellent income and security.

But if the business's worth is about \$2 million, the situation changes completely. Giving ownership to the next generation as soon as possible to avoid estate taxes saves very significant amounts of money, but sufficient funds typically are not available to secure the senior generation's income.

The family business in this circumstance has a great dilemma: The older generation would be wise to give stock and retain ownership control.

Unfortunately, as much as they would like to, the members of the next generation

cannot solve the dilemma. They probably can't afford to buy out their parents because a business worth \$2 million cannot usually generate enough profit to purchase their parents' stock, pay next-generation salaries, and invest in business growth.

Avoiding this dilemma requires years of



ILLUSTRATION: TROY THOMAS

planning and saving. Here's a great rule of thumb: If you save and conservatively invest 10 percent of your income every year for 20 to 25 years, you will be able to assure yourself a full income for life without selling or controlling the business. By doing so, you permit yourself to give your shares with maximum tax advantage to the next generation and can engage in planning succession based on what's best for the future of the business and the family.

You gain control over your decisions about retirement because business decisions need not be driven by the need for personal income. Now the business can be safely transferred to the next generation with generational family tensions greatly eased.

Of course, saving 10 percent of your income each year requires great discipline and foresight. Doing so, however, will make you financially independent of the business you created to make you financially independent. You can live without your business, and from a financial perspective, your business can live without

you. You also provide a great example for future generations—which also need to start saving as early as possible.

Even when loving parents have confidence in their children's executive abilities, they still experience a painful struggle when the time comes to let go of authority and control.

Successors see their parents' hesitation and feel untrusted and unworthy. Parents feel unappreciated and unfulfilled. Family members not in the business are frightened and saddened by the generational conflicts they witness.

Letting go is tough for parents for three major reasons:

- They feel financially insecure. They fear the prospect of depending on a business they don't control, and they recoil at the thought that they might need to ask their children for financial help.

- They feel the business is their personal identity. Without retaining authority in the business, they fear that no one will ask for or value their opinion or seek their involvement in community leadership. They fear that respect and recognition will disappear along with power and control.

- They feel that control over the business gives them more control over family members and family behavior. When they control the business, they can provide for family members who might later have problems or needs. They can also stimulate greater conformity by rewarding or punishing family members who don't behave as expected.

Although creation of the parents' retirement nest egg resolves only the first concern, it removes a roadblock to finding solutions to the remaining major concerns. Financial planning for parents' lifetime security is often the key to achieving the variety of dreams that originally inspired the creation of the family business. ■



PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State University, in Kennesaw, Ga. They are principals in the Family Business Consulting Group, Inc.

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FAMILY BUSINESS

Case Study: Bringing On A New Board

"Dad's board of advisers has served him well," says Mark Compton, 38, "but as the new CEO of Compton Electronics, I want to develop the board into one that helps set policy and provides business expertise."

Ted Compton, Mark's father, sought the help of his accountant, his lawyer, and three of his best friends when he started the company in the early 1970s. According to Ted, it was with their help and support that the company grew into one of the largest privately owned electronics firms in the area. "They have advised me on business matters *and* family matters, and

I still trust their judgment and experience," says Ted, "but it's Mark's company now, and I also trust his judgment."

Mark's vision for a new board includes regularly scheduled meetings at which the members would set policy, resolve conflicts, develop strategic plans, and build scenarios for the future. Mark would like a board that is impartial and whose members complement one another. But he also

is interested in holding the members accountable for their role on the board.

Ted and Mark would like assistance with several issues. "How can I best thank my old friends for their tenure on the board?" Ted asks. "And how can the transition from one board to the next be made smooth and void of hurt feelings?"

Mark wants to know not only how he should proceed in selecting new board members but also how he can develop effective relationships with each of the members. And he asks what should be included in reports to the board.

Response 1

Allow A Sharing Of Experience

No matter how well planned a transition from one board to another might be, there is no guarantee that people's feelings won't be hurt. An effective board develops a sense of psychological ownership for the company's well-being and may have difficulty letting go.

One way to thank outgoing members is to give them the opportunity to share their experience with, and make recommendations to, the next board. This is an elegant way to

recognize their contributions and ease their transition. Keeping them informed about the company's progress and inviting them to special events are other ways to recognize them long after their involvement ends.

In choosing new members, Mark should begin with an inventory of the critical strategic issues and decisions facing the company and the kind of experience and counsel he needs to address them. Basing his board selection more on expertise and less on personal relationship is a good way to establish the board as a vital resource to the organization.

Periodically the board must be reconfigured to meet the emerging needs of the company. In fact, Mark would do well to limit tenure on the board to two or three years.

Members can always

be invited to serve another term if that is desired.

As part of the selection process, Mark needs to articulate what he wants and expects from each board member and what, in turn, the board can expect from him. A board culture driven by strategic business needs combined with term limits is the best antidote to "hurt feelings" when it's time for board members to leave.



PHOTO: ©BART BARTHOLOMEW

Marta Vago, a consultant to business families and closely held firms, based in Santa Monica, Calif.

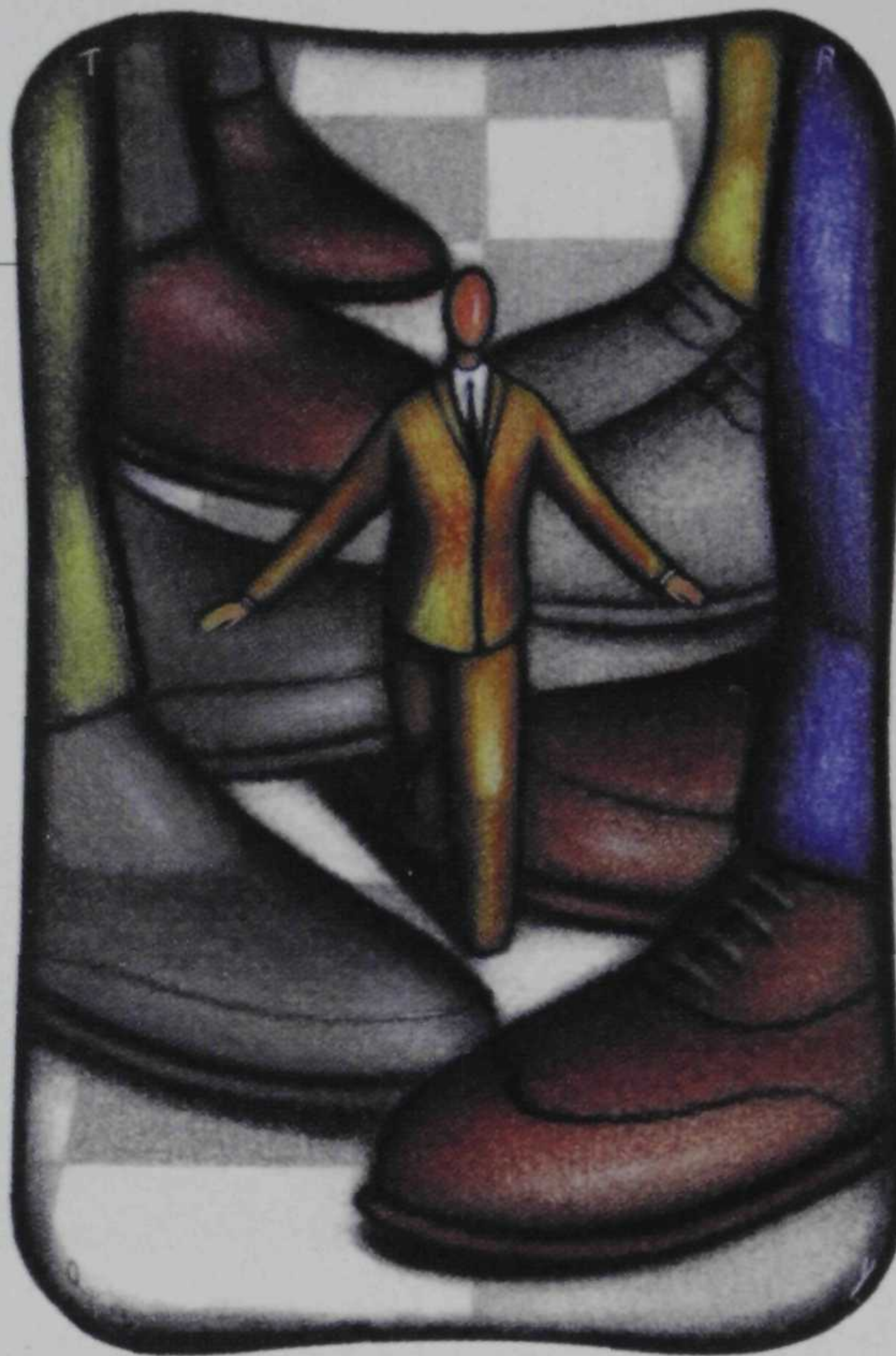


ILLUSTRATION: TROY THOMAS

become the board's student and its leader, with the flexibility to act appropriately and intentionally. Eventually, Mark may "select out" members who are uncommitted.

Ted and Mark can thank the old board by honoring their contribution. As each resigns or is otherwise replaced, Mark can offer a public expression of appreciation.

Mark should begin the task of building a shared vision with his current board, recognizing that his own vision will change in the interaction with experienced and loyal people. Over the next year, Mark should develop a list of qualities desired in new members.

An effective board will be built over time through a thoughtful and steady approach.

Mark and his board together will decide how often to meet and will set policy, resolve conflict, and develop a strategic plan. Together, they will develop the reporting package, whether it includes regular reports on the company's financial status or any periodic reports involving major contracts, personnel issues, litigation, and the like.

But for now, Mark needs to resist the temptation to move too quickly.

Response 2

Be Steady And Thoughtful

Mark should go slow. Change for change's sake would create a vacuum with the loss of important knowledge and experience. The company's bankers, customers, suppliers, employees, and competitors would wonder about the stability of the company and about Mark's competence.

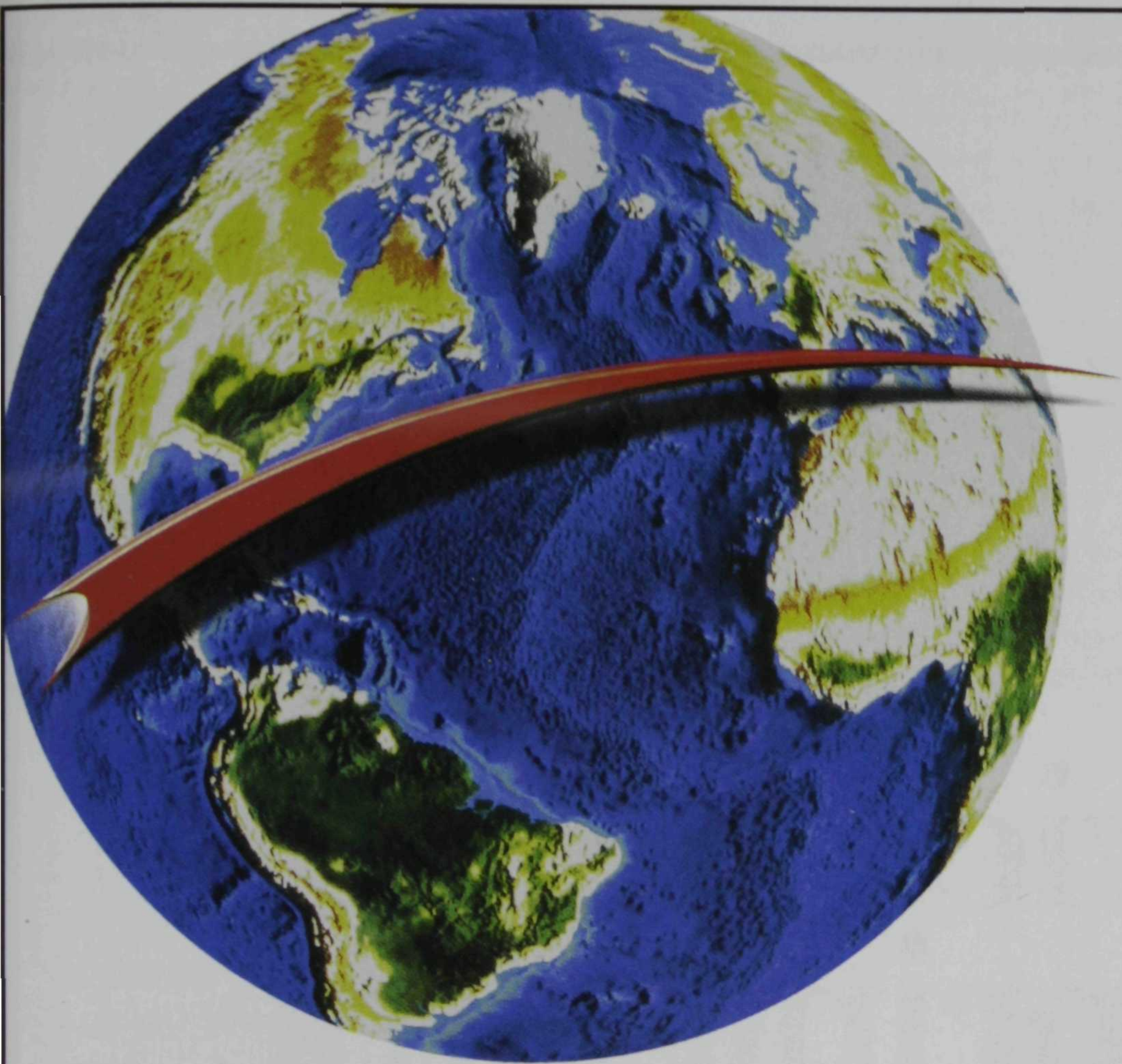
Mark should assess the ability of the current board by listening to each member talk about the business and its future. Then he should ask each to serve him for at least a year. This would enable him to



PHOTO: ©PAT CORDELL

Kay B. Wakefield, an attorney and partner in Wakefield, Browning & McCobb, P.C., in Portland, Ore.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.



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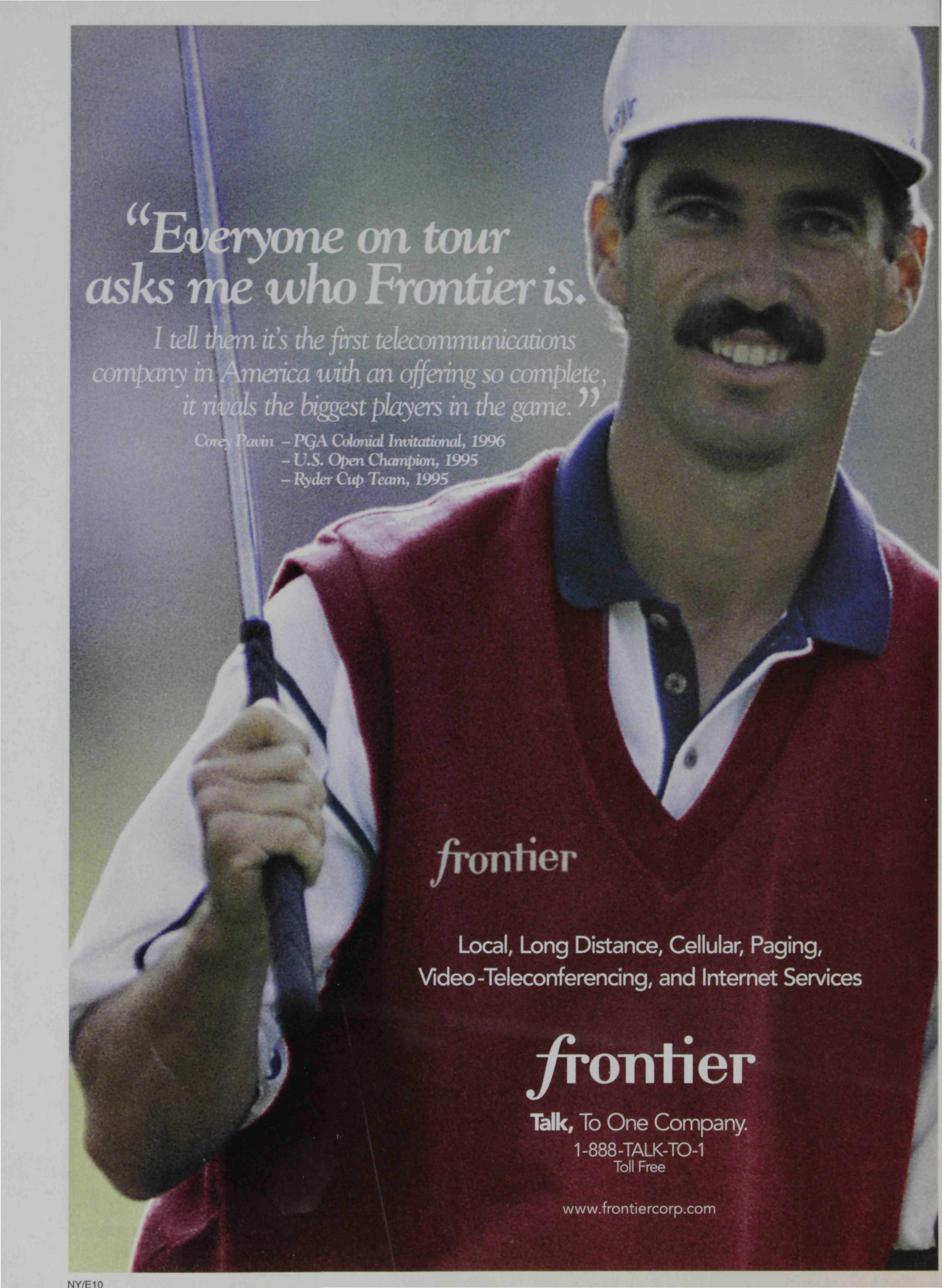
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SMALL BUSINESS COMPUTING

The Latest Tools For The Job

By Tim McCollum

This special report on a wide variety of exceptional computers and peripheral devices can help you choose the right equipment for your firm.

As with most entrepreneurs, the success of Nina Renaud and Bill Bryan depends in part on their ability to perform a wide variety of business tasks. On any given day, their year-old, home-based business may require Renaud and Bryan to carry out the duties usually performed by executives, salespeople, accountants, or shipping clerks.

No wonder the husband-and-wife entrepreneurs expect versatility and reliability from the computer and related equipment at their Danville, Calif., firm, Corporate Golf. The firm provides custom-imprinted golf apparel and equipment and golf-related services to corporate customers in the San Francisco area.

In fact, Renaud says, technology has become indispensable at the company. "It's almost impossible to run a business without a computer," she says. "How would you do that?"

Almost immediately upon founding the company, Renaud and Bryan purchased an IBM-compatible personal computer for accounting and correspondence with customers, suppliers, and vendors. But even with the PC, they struggled to manage the information going into and out of their office.

Part of the problem was that their phone line was often tied up, making it difficult for customers and suppliers to get in touch with them. Moreover, their fax machine was relegated to the same phone line as the answering machine. Incoming callers who wished to send a fax had to listen to an instructional message and press the start button on their fax machines at the proper time; callers who wished to leave voice mail had to wait through an inordinately long message.

This situation was inconvenient and irritating to customers and suppliers, and it conveyed the impression that Corporate Golf was a shoestring operation.

Renaud and Bryan also were having trouble keeping track of the information

that made it to the office. Lacking a copier, they couldn't make copies of purchase orders, bills, and other important documents. This past spring, Renaud and Bryan found a technological solution to their organizational woes in a desktop device

siderations for entrepreneurs is not how fast and how powerful computer technology has become but how technology can make them more professional and productive.

Today's computers are advertised as being "multitasking," which simply means that the PCs are powerful enough to run several software programs at once. But small-business owners expect more: They want the computers to include greater capabilities such as fax, data, and voice communications; multimedia; scanning; and printing functions. And they are unwilling to spend much more than they had been spending on computers to get this versatility.

Computer manufacturers are trying to meet small-business and home-office demands with full-featured yet reasonably priced computers. This special report is designed to help you make sense of today's wide variety of these exceptional machines and peripheral equipment. The sections that follow highlight:

■ Desktop systems, the workhorses of small offices.

■ Portable systems, including notebooks, subnotebooks, and personal digital assistants, all of which are especially hot this year.

■ Imaging devices, including printers and scanners.

■ Finishing-touches hardware, including color monitors, keyboards and mice, and CD-ROM drives.

Desktop Computers

State-of-the-art desktop computers, some of which feature the blazing new 200Mhz Pentium processor by Intel Corp., can ably perform business tasks ranging from crunching numbers in a spreadsheet to sending a fax, answering the telephone, or downloading information from the Internet. Each of these new desktop systems is loaded with features that make it highly useful, well-connected, and trouble-free:



PHOTO: ©LINDA SUE SCOTT

Golf-equipment entrepreneurs *Nina Renaud and Bill Bryan streamlined their office tasks with a multifunction desktop device, the WorkCenter 250.*

called the WorkCenter 250. This versatile product, from Xerox Corp., includes document printing, faxing, copying, and scanning capabilities in one small machine. The combination of the couple's computer and the aptly named WorkCenter quickly became the nerve center of Corporate Golf's operation. Renaud says she is now better able to produce and manage documents, and that the WorkCenter's fax capability makes it easier to do business with suppliers in different parts of the country—and in different time zones—because faxes can be sent as well as received automatically any time of the day or night.

And the integration of the answering machine and the fax, says Renaud, "makes us sound more professional to people calling in. I don't think most of our clients realize that we're [still] working out of our house."

As the experience of Renaud and Bryan illustrates, one of the most important con-

SMALL BUSINESS COMPUTING

Apple Power Macintosh 8500/150, Apple Computer Inc., 1-800-538-9696: Don't be misled by the fact that Macs now account for less than 10 percent of desktop-computer sales. These computers are technically advanced and provide outstanding performance, especially for those running graphics-processing and other multimedia software. The new Power Macintosh 8500/150, for example, includes a 4X CD-ROM drive, sound integrated on the motherboard, and extraordinary video capabilities in the form of a port that can connect to a television, videocassette recorder, or other source for importing or exporting videos.

This Mac's overall muscle comes in the form of a 150Mhz PowerPC 604 processor by Motorola Inc., 16MB of RAM, a level 2 cache of 256KB, and a 2GB hard drive. It also includes 2MB of video memory to speed graphics applications. Built-in connectors and software make this Mac network-ready right out of the box.

Apple's SuperDrive floppy can read diskettes formatted on PCs running the DOS or Windows 3.1 operating systems by Microsoft Corp. And the Power Mac comes preloaded with version 7.5 of the exceptional Mac operating system. Price: \$4,959.

AST Bravo MS, AST Computer, 1-800-876-4278: AST's Bravo MS is a power system designed to run data- and graphics-intensive business software effectively. Driven by a 166Mhz Pentium, the Bravo MS has 16MB of RAM plus a 16KB primary cache and a 256KB secondary cache.



Apple Power Macintosh 8500/150



Digital Venturis FX 5166

Graphics capabilities are enhanced by 1MB of video RAM and a powerful 64-bit ATImach64 VT graphics chip on the motherboard. The Bravo also comes with an excellent 16-bit Creative Labs SoundBlaster Pro Vibra sound card and stereo headphones with a built-in microphone. And it has a 1.2GB hard disk for storage.

To help small businesses make the most of the system, the Bravo MS comes equipped with the AST CommandCenter, a

set of utilities, including one that allows users to set passwords to prevent unauthorized access. The CommandCenter also enables users to receive technical support from AST using an optional VoiceView voice and data modem.

In addition to these utilities, the CommandCenter includes software for managing video and audio, including voice-recognition and text-to-speech programs. The Bravo MS allows users to install either the MS/DOS 6.22 and Windows 3.11 or the Windows 95 operating systems. Price: \$1,976. The Bravo MS-T, a minitower model with identical features, costs \$2,184.

Dell OptiPlex GX5200, Dell Computer Corp., 1-800-289-3355: Dell's 200Mhz OptiPlex GX5200 comes ready to connect to a company's computer network thanks to its built-in Etherlink III network interface from 3Com Corp.

Equipped with a 200Mhz Pentium, the GX5200 also comes equipped with a generous 32MB of RAM and a 256KB level 2 cache, plus 2MB of video RAM with 64-bit graphics acceleration and integrated full-motion MPEG video. Standard features include a 1GB hard drive and an 8X CD-ROM and 16-bit Creative Labs Vibra stereo sound card and speakers. The system comes with a 15-inch color monitor and is available in desktop or minitower models.

The GX5200 can be purchased preloaded with any of four operating systems: Windows 95, Windows NT Workstation 3.51, Windows 3.11, or IBM Corp.'s OS/2 Warp.

A Glossary Of Computer Terms

The jargon and acronyms of the computer world can come across like an incomprehensible variant of the English language. Following are definitions of some key terms that small-business owners are likely to encounter when they shop for computers and peripheral devices.

Byte: A basic unit of measurement, most commonly of memory, disk capacity, or modem and drive speeds. A **kilobyte (KB)** is 1,024 bytes, a **megabyte (MB)** is 1,024KB, and a **gigabyte (GB)** is 1,024MB.

Cache: A type of supplemental memory that enables computer instructions to be processed at the highest possible speeds. Primary, or level 1, cache is built into the computer's microprocessor. Secondary, or level 2, cache consists of memory chips on the motherboard.

CD-ROM (Compact disc read only memory): A

disk resembling an audio CD that can hold more than 650MB of text, graphics, video, and sound.

A CD-ROM's contents are accessed through use of a CD-ROM drive. The speed of the CD-ROM drive significantly affects performance. Eight-speed (8X) drives currently are the fastest available, and they can transfer data at 1,200 **kilobytes per second (KBps)**. Quad- and double-speed drives (4X and 2X) are common, and their transfer rates are proportionally lower than 8X drives.

Disk: A floppy disk, also called a diskette, is a removable magnetic disk commonly used to distribute software, store data, and transfer files between computers. Most computers have a drive that accepts 3.5-inch floppy disks, which can hold up to 2.8MB of data.

A **hard disk** is a fixed disk located inside the computer for storing data. Hard disks

can store and retrieve data faster than floppy disks and are much larger: Most computers now come with at least a 1GB hard drive.

Display: The screen on a portable computer. **Active-matrix** and **thin-film transistor (TFT)** provide sharper, higher-quality pictures than **dual-scan** or **passive-matrix** displays.

Graphics accelerator: A type of video card that dramatically speeds the rate at which graphical images are displayed.

Infrared port: A device that enables one computer to transmit data to another or to a peripheral device without wires. It works like a television remote control.

Microprocessor or central processing unit (CPU): The chip on the motherboard that does the actual computing by processing instructions and making calculations. Its speed is measured in **megahertz (Mhz)**, or millions of cycles per second.

Dell also includes the Desktop Management Interface, which allows the computer to be configured and monitored either at the keyboard or remotely over a network. Price: \$2,914.

Digital Venturis FX 5166, Digital Equipment Corp., 1-800-344-4825: DEC's new Venturis FX desktop computers are intended for companies looking for highly cost-effective systems. Everything from their design to their software support is supposed to make the systems easy to maintain while still providing strong performance.

At its heart, the Venturis FX 5166 is a powerful system, with a 166Mhz Pentium processor, a 1.6GB hard disk, 16MB of RAM, a 256KB level 2 cache, and up to 2MB of video memory. The basic configuration doesn't include a CD-ROM drive or a sound card, but they are available as options.

There is room inside for adding devices such as a tape drive for backing up files. Standard software includes a choice of Windows 3.11 or Windows 95 and of two Internet browsers—Microsoft Internet Explorer or Netscape Navigator.

The Venturis also comes with DEC's ClientWorks 2.2 software, which allows network managers to perform diagnostic checks and manage software across a network. Price: \$2,719.

Gateway 2000 P5-200XL, Gateway 2000 Inc., 1-800-846-2000: The P5-200XL is a true power computer built to handle the computing demands of growing small busi-



Hewlett-Packard Vectra 500



IBM PC 300

nesses. The P5-200XL includes a 200MHz Pentium processor, 32MB of RAM, 512KB of secondary cache, and a huge 2.5GB hard drive. Multimedia hardware includes a superb 17-inch Vivitron monitor, a 64-bit Matrox MGA Millennium graphics accelerator, a SoundBlaster-compatible sound card, and stereo speakers. The computer can be purchased with both an 8X CD-ROM drive and a CD-R drive, which allows users to save data to compact discs.

The P5-200XL's power enables it to take full advantage of communications tools such as a 28.8-Kbps internal fax/data modem and Microsoft's Exchange e-mail and Internet Explorer World Wide Web browser software to access the Internet and download large files and graphics. The system comes with a tremendous collection of productivity and home-use software. Price: \$3,899.

Hewlett-Packard Vectra 515MCx 5/166, Hewlett-Packard Co., 1-800-322-4772: H-P's Vectra 500 series desktop computers are designed specifically to meet small-business needs. They're complete systems that come loaded with most of the essential business and communication tools.

The top-of-the-line Vectra 515MCx 5/166 minitower has a 166Mhz Pentium processor, a 1.6GB hard drive, 16MB of RAM, and a 256KB level 2 cache. Multimedia support includes an 8X CD-ROM drive, a sound card that's compatible with the Creative Labs SoundBlaster Pro, stereo speakers, and a microphone.

To help users communicate, the Vectra comes with a 28.8-Kbps DSVD modem with built-in answering machine, speakerphone, and fax capabilities. The Vectra comes with the Windows 95 operating system as well as several business applications.

The Vectra also is easy to use and manage, thanks to Discover, a simplified graphical interface that runs on top of Windows 95 and simulates an office environment to help you find applications such as fax, answering machine, and word proc-

Modem (modulator-demodulator): A device that allows computers to communicate computer data over standard telephone lines. Today's fastest modems operate at speeds up to 33.6Kbps. **Fax modems** are capable of sending faxes to fax machines; **DSVD (digital simultaneous voice and data) modems** allow simultaneous voice and data transmission over a single phone line.

Motherboard: A circuit board that houses components such as the microprocessor and memory chips. It has slots for devices such as a video card, hard drive, modem, sound card, and external drives, which could include a CD-ROM player or a backup drive.

Mouse: A pointing device used to issue commands and to move the cursor on the screen.

MPEG (Moving Pictures Expert Group): A standard for recording and playing back compressed video images.

Parallel port: A connector used for peripherals such as printers, CD-ROM drives, or tape backups. A **serial port** is a connector commonly used for a modem or a mouse.

PC card: A credit-card-size device for attaching peripheral devices such as modems, removable hard drives, and sound cards to portable computers.

Plug and play: A feature of the Macintosh and Windows 95 operating systems that provides automatic setup of new peripheral devices.

Printers: An **inkjet printer** uses an ink spray to produce images on pages. Color inkjet printers have become popular among business people who need to make good-looking presentations. A **laser printer** uses a laser to create images, which are transferred to paper using a substance called toner. Laser printers produce the highest-resolution copies and the fastest print speeds.

RAM (random access memory): Chips that provide work space in which the computer temporarily keeps track of changes in documents until they are saved to the hard disk.

The more memory, the larger the software program or the number of programs that can be run simultaneously. Most computers come standard with 8MB of RAM, but Windows 95 works better with 16MB.

Scanner: A device that converts printed material into a digital form that can be manipulated and stored on a computer. Before scanned text documents can be edited in a word-processing program, they must be processed by **optical character recognition (OCR)** software.

Sound card: A peripheral device that enables computers to play and record sound. The leading de-facto standard is the SoundBlaster, by Creative Labs Inc., and most other brands are compatible with it.

SMALL BUSINESS COMPUTING

essing. In case of trouble, the modem allows users to call in to Hewlett-Packard and have technical-support people diagnose and repair the system remotely. Price: \$2,240.

IBM PC 300, IBM Personal Computer Co., 1-800-426-2968: IBM's new PC 300 is its most network-ready business computer to date, with built-in hardware and software tools designed to make it a snap to connect to a company's computer network.

But the PC 300 has plenty of power on its own, with a 200Mhz Pentium available in the top-of-the-line model. The basic configuration includes a 1.6GB hard drive, 16MB of RAM, a 256KB level 2 cache, and 1MB of video RAM plus a fast S3 Trio graphics chip set built onto the motherboard.

The PC 300 ships with a choice of operating systems: Windows 95, Windows 3.1, Windows NT Workstation 3.51, or OS/2 Warp. Also standard are IBM's Lotus SmartSuite office suite, which includes programs for word processing, spreadsheets, personal-information management, and presentation graphics.

The PC 300 also comes with Intel's ProShare software, which permits video-conferencing and collaboration capabilities over a network. Price for the basic 200Mhz model: \$2,875.

NEC PowerMate P166, NEC Technologies Inc., 1-800-632-4636: NEC's PowerMate P166 minitower is loaded with high-performance features for business users. Graphics are the PowerMate's strong suit. The P166 comes with 2MB of video RAM and a 64-bit Matrox Millennium graphics accelerator with support for 3-D graphics and both MPEG and Video for Windows video playback. It also has the tools for running multimedia: a 6X CD-ROM, 16-bit SoundBlaster-compatible sound and speakers, and a microphone for voice input, plus sound and video software.

The basic configuration for the P166 includes a 166MHz Pentium, 16MB of RAM, 16KB of primary cache, 256KB of secondary cache, and a 2GB hard drive.

In addition to its graphics and multimedia hardware, the P166 has an infrared port for wireless data transfers. Both Windows 95 and Windows 3.11 are included. Price: \$2,575.

Portable Computers

Much of the innovation in computer design this year has been in a category of portables known as notebook computers—so named because their dimensions approximate those of a loose-leaf notebook. The best of this new breed of portables come equipped with fast Intel Pentium microprocessors, large screens, relatively comfortable keyboards, CD-ROM drives, long-lasting lith-

ium ion batteries, and telecommunications and networking capabilities.

But despite the addition of these desktop-computer-like features, notebooks have become thinner and lighter; some weigh less than 5 pounds. That's because most now are modular in design, giving users the choice of interchanging components—a CD-ROM drive or an additional battery, for example—or sticking with the base system to keep weight down during travel.

Among the new notebooks and other portables we found particularly useful are:

Acer AcerNote Nuovo 971, Acer America Corp., 1-800-733-2237: Long battery life is the biggest selling point for the AcerNote Nuovo. Acer says its lithium ion batteries



Acer AcerNote Nuovo



Canon NoteJet IIIcx

have lasted up to eight hours in tests conducted by independent laboratories, so the Nuovo can go an entire out-of-the-office workday without a recharge.

The 7-pound Nuovo comes with a 133Mhz Pentium processor, a 1.2GB hard drive, and 16MB of RAM. It features an 11.8-inch, active-matrix color display enhanced by a graphics accelerator with MPEG playback capability.

A bay in the body of the Nuovo can house either a floppy or a 6X CD-ROM drive. The Nuovo has a built-in adapter for connecting to a network, a DSVD modem with speakerphone and answering-machine capabilities, and an integrated sound system featuring dual speakers and a microphone.

For additional expandability, the Nuovo includes two slots for PC cards and an infrared port. Price: \$3,999.

Canon NoteJet IIIcx, Canon Computer Systems Inc., 1-800-848-4123: The NoteJet IIIcx is the computing world's only true portable office. It combines a powerful notebook computer with a color inkjet printer and a black-and-white scanner. The base-model IIIcx features a 90Mhz Pentium processor, an 810MB hard drive, 8MB of RAM, two PC card slots, and the Windows 95 operating system. Also featured are an excellent 11.8-inch, active-matrix color display enhanced by a graphics accelerator, an IBM-style pointing device that resembles a pencil eraser, infrared communications and 16-bit sound capabilities, and an advanced nickel metal hydride battery by Duracell Corp.

What distinguishes the IIIcx from the competition, however, is its built-in color printer with resolution of 360 by 360 dots per inch (dpi), capable of handling envelopes and transparencies as well as up to 10 sheets of paper, and its document scanner, also 360 by 360 dpi resolution. Though the 9.4-pound NoteJet is a bit heavy, it is well-suited to those who need to get paper into and out of their computer while traveling. Price: \$5,799.

Compaq Armada 4100, Compaq Computer Corp., 1-800-888-5858: Compaq's Armada 4100 notebook is slim (1.5 inches) and light (5.1 pounds) for excellent mobility, and its flexible design gives users a choice of many configurations. The standard Armada includes a 3.5-inch diskette drive, stereo speakers, and a detachable handle that houses the Armada's lithium ion battery and allows the keyboard to be tilted forward to make typing more comfortable.

A mobile CD-ROM base attaches to a port at the bottom of the unit, providing a 4X CD-ROM drive, enhanced speakers, a sound-input port, and a slot for an extra battery. The sound system provides 1-watt-per-channel, 16-bit stereo.

For presentations, the Armada comes with a port for connecting to televisions, and it can play back MPEG videos.

The Armada is available with 100Mhz, 120Mhz, or 133Mhz Pentium microprocessors, 8MB or 16MB of RAM, and either an 810MB or a 1GB removable hard drive. It comes with either an 11.3-inch dual-scan color display or an 11.8-inch thin-film transistor (TFT) color display. A touch-pad pointing device is standard.

The Armada's lithium ion battery can last three hours, and up to two batteries can be added. The optional 28.8-Kbps PC card modem provides voice and data communications, including connectivity to cellular lines. Price: \$2,599 to \$4,599, depending on configuration.

Dell Latitude LM P-133ST, Dell Computer Corp., 1-800-289-3355: The new Latitude

LM notebook offers souped-up multimedia capabilities without burning much energy. The multimedia aspect is made possible by a 12.1-inch active-matrix color display backed by a graphics accelerator. The Latitude LM also has a removable 4X CD-ROM drive and a sound system with stereo speakers. The lithium ion battery provides three hours of use per charge.

In its standard configuration, the P-133ST is powered by a 133MHz Pentium processor and has 8MB of RAM. The hard drive, at just 540MB, is small by current standards, but it can be swapped for a 1.3GB drive. The CD-ROM drive can be replaced by either a 3.5-inch floppy drive or a second lithium ion battery.

Connectivity options include two PC card slots and an infrared port. The P-133ST can also be connected to desktop peripherals such as a full-size keyboard and monitor using Dell's Advanced Port Replicator and DeskDock docking station. Dell offers a choice of the Windows 95 or the Windows 3.11 operating systems, along with an assortment of useful business and communication software. Price: \$3,399.

Hitachi M-133T, Hitachi PC Corp., 1-800-555-6820: Hitachi's new notebooks have networking and communications capabilities built into the motherboard. To get you started, the M-133T comes bundled with software such as the Netscape Navigator Internet browser and software for accessing the Internet plus the America Online, CompuServe, and Prodigy on-line services.

The computer itself is comparable in features with competing notebooks, offering a 133MHz Pentium processor, a 1GB hard drive, and 16MB of RAM. An 11.8-inch active-matrix color display is a step up from the smaller 10.4-inch active-matrix display used on Hitachi's lower-end 100MHz notebook.

Multimedia capabilities include a 6X CD-ROM, a sound card, and stereo speakers. The keyboard, though full-sized, feels cramped and lacks the ergonomic base common in other notebooks. At 7.3 pounds, the M-133T is a bit heavy for a mobile computer, but Hitachi also sells a series of notebooks that trade features such as the CD-ROM drive for a trimmer, 1.5-inch, 5.3-pound figure. Price: \$5,499.

IBM ThinkPad 560, IBM Personal Computer Co., 1-800-426-2968: The ThinkPad 560 is the slimmest and lightest notebook—just 1.2 inches thick and 4.1 pounds. Yet it boasts a large, 12.1-inch TFT color display and a full-sized keyboard with a pointing device that resembles a pencil eraser.

The 133MHz Pentium ThinkPad 560 comes with 8MB of RAM, a 1.08GB hard disk, and 16-bit audio support. It has a removable 3.5-inch floppy drive, two PC

card slots, and an infrared port. The lithium ion battery provides up to three hours on a charge. The ThinkPad is intended for people who are often on the go, and its ultrathin design means there's no room for an internal CD-ROM or a modem. Both can be added externally, however. It also comes loaded with software to let you do the job wherever you go, including Windows 95, the Netscape Navigator Internet browser, and the Lotus SmartSuite. Price: \$4,199

Sharp PC-9080, Sharp Electronics Corp., 1-800-237-4277: Sharp's newest notebooks have been enhanced to make the most of multimedia applications such as CD-ROM.

A wide, 12.1-inch TFT color display combined with 2MB of video memory can



Compaq Armada 4100



Sharp Zaurus 5800

show bright, high-resolution images. Inside, a 133MHz Pentium processor, 16MB of RAM, and a 1.3GB hard drive provide desktop-caliber performance.

The PC-9080 has also been loaded with multimedia tools, including a removable 6X CD-ROM drive, MPEG video software, a 16-bit sound card, and software for running CD-ROMs and audio CDs. A built-in 28.8-Kbps data/fax modem and software for accessing America Online, CompuServe, and the Internet provide connectivity.

Sharp's infrared port enables wireless transmission at the exceptionally high rate of 4 megabits per second. Two PC card slots provide additional connectivity. The 3.5-inch floppy drive can be replaced by an additional lithium ion battery. Price: less than \$6,000 when the computer is available in late September.

Texas Instruments TravelMate 6030, Texas Instruments Inc., 1-800-848-3927: The popular TravelMate series has been upgraded to a slimmer, lighter model—less than 2 inches thick and weighing under 6 pounds. Yet it packs an array of features. Best of all, the TravelMate 6030 has been redesigned to be easier and more comfortable to use. It's bundled with an easy-to-configure 28.8-Kbps PC card modem that can serve as a speakerphone or answering machine.

Both the Windows 3.11 and the Windows 95 operating systems are included. The keyboard has been redesigned and expanded for greater comfort. In the office, the TravelMate 6030 can be connected to TI's DockMate docking station for connection to a full-sized monitor and peripherals such as a printer or scanner.

The TravelMate 6030 comes with a 133MHz Pentium processor, 16MB of RAM, a 256KB level 2 cache, and a 1.35GB hard disk. The 12.1-inch active-matrix color display is enhanced by 2MB of video memory and a graphics accelerator. Multimedia support includes a removable 6X CD-ROM drive and a 16-bit stereo chip.

The modular bay in the base of the 6030 can house the CD-ROM, a second 2GB hard disk, a 3.5-inch floppy drive, or an additional lithium ion battery. Price: \$4,999.

Toshiba Satellite Pro 420, Toshiba America Information Systems Inc., 1-800-999-4273: Toshiba has rolled out new models across all its notebook product lines, including its Satellite Pro series for the small-business market. The Satellite Pro line has been enhanced with multimedia capabilities, including a removable 6X CD-ROM drive, a 16-bit audio chip, a built-in microphone, and MPEG video playback.

The standard Satellite Pro configuration includes a 100MHz Pentium processor, a 1.26GB hard disk, 8MB of RAM, and a choice of an active-matrix or a dual-scan display, both of them color and 11.3 inches. Two PC card slots are available for connecting network adapters, modems, and other peripherals, and a 3.5-inch floppy drive can be added in place of the CD-ROM.

The Satellite Pro can also be connected to desktop peripherals using Toshiba's NoteDock Enhanced Port Replicator. On the road, the lithium ion battery provides three to four hours of battery life and can be recharged with the computer switched off. The AC adapter is integrated into the notebook, making it easy to carry. Price: \$2,499 and up depending on configuration.

Psion Series 3a, Psion Inc., 1-800-99-PSION (1-800-997-7466): Psion, a company far better known in Europe than in the U.S., created the first electronic organizer in 1984. And while Psion's current product line, the Series 3a, still looks like a simple

SMALL BUSINESS COMPUTING

organizer, the products actually are small, 16-bit computers capable of running several programs simultaneously.

The Series 3a consists of three models that differ in their internal memory capacities—512KB, 1MB, or 2MB—though the memory of each can be expanded via a PC card solid-state disk. Each is about the size of an eyeglass case, weighs less than 10 ounces, and features an extremely readable, backlit monochrome display.

At the touch of a button, the Psion is ready to run any combination of its surprisingly powerful, built-in software programs, including a word processor, spreadsheet, database, scheduler, and calculator. Two-finger typing at a reasonable rate is possible after some practice, but large-scale data entry should be done on a PC and downloaded to the Psion via the PsiWin software and hardware kit, which sells for \$100. Lots of additional productivity software is available for the Psion, and so is an excellent 14.4-Kbps fax/data modem powered by a 9-volt battery. Price: \$399 to \$599, depending on memory; the modem sells for \$299.

Sharp Zaurus 5800, Sharp Electronics Corp., 1-800-237-4277: Sharp was among the creators of the personal digital assistant category, and its latest PDA, the Zaurus, features an array of messaging and personal-organizer capabilities.

The Zaurus weighs about a pound and has a 5-inch backlit color liquid crystal display. Features such as a personal-information manager with a day planner, fax and e-mail communications, and voice-memo capabilities can be accessed using the built-in keyboard or a stylus. The Zaurus has a slot for PC cards such as a modem.

The Zaurus can share data with Windows PCs via Sharp's Zaurus Data Exchange utility software and an optional infrared port. Price: \$699.

Texas Instruments Personal Organizer PS-6960Si, Texas Instruments Inc., 1-800-842-2737: The pocket-sized Personal Organizer does the basics well and affordably. Its main features are designed to help users keep track of contacts and appointments.

The device has 256KB of memory and a six-line display with Timex's bright Indiglo backlight. The ample-sized keyboard makes data entry easy.

A "scan" key provides one-touch access to phone numbers and reminders, and users can also set alarms to remind them of important meetings.

The Personal Organizer is available with a kit for connecting with a personal computer; it includes a docking station and software that enables the user to exchange files with a Windows-based PC via its serial port. Price: \$239.

US Robotics Pilot 1000, US Robotics Corp., 1-800-881-7256: The pen-based Pilot looks much like earlier PDAs such as the Apple Newton, which is to say it resembles an elongated, pocket-size notepad that's bound at the top. But at retail prices starting at \$299, the Pilot costs several hundred dollars less than pioneering PDAs, yet it doesn't give up much functionality.

It's easy to find your way around the Pilot. Buttons on the front of the case bring up phone numbers, addresses, and reminders. Icons on the screen take you to the main menu or the search function, or they launch applications such as the calculator.

Data entry is accomplished either by pressing the "keys" on an on-screen keyboard or by writing with a pen-stylus. The



Lexmark Color Jetprinter 2050



Umax Vista-S12 scanner

Pilot also comes with hardware and software that allow users to transfer data between the device and a Windows PC or a Macintosh. Information can be swapped with popular desktop information-management programs such as Lotus Organizer, Microsoft Schedule+, and Starfish Software's Sidekick. The Pilot also features a PC card slot for a modem.

Printers And Scanners

Small-business owners can get more technological bang than ever for the bucks they spend on printers. Color inkjets continue to come down in price, allowing small firms to use color in their presentations and marketing materials, and sophisticated black-and-white laser printers are becoming increasingly affordable.

Also, scanners and multifunction devices that combine printing, scanning, faxing, and copying capabilities are becoming less expensive and, therefore, more common in small offices as entrepreneurs seek ways to incorporate printed images into their business materials without making huge investments in new equipment.

Here are new printers, scanners, and multiple-use machines we've examined:

Apple LaserWriter 12/640 PS, Apple Computer Inc., 1-800-538-9696: The newest LaserWriter is a black-and-white laser printer that can work on virtually all company networks—even those linking an assortment of Macintosh and Windows-based computers. The LaserWriter 12/640 PS can print 12 pages per minute at a resolution of 600 by 600 dpi and is compatible with the Adobe PostScript and Hewlett-Packard PCL printer languages for maximum versatility. Print quality is enhanced by Apple's FinePrint resolution-enhancement technology and PhotoGrade graphic-image-enhancement software.

The LaserWriter 12/640 PS can print not only on plain paper but also on specialty papers, envelopes, and postcard stock. A 250-sheet main paper tray and an 80-sheet multipurpose tray are standard. It is available with accessories such as a 500-sheet paper tray, an envelope tray, and a face-up tray for printing on transparencies, index cards, and labels. Price: \$1,689.

Lexmark Color Jetprinter 2050, Lexmark International Inc., 1-800-891-0331: A low price and expanded color printing capabilities make Lexmark's Color Jetprinter 2050 a sound choice for small businesses. The Windows-based printer prints in four colors at 600 by 600 dpi. It also prints on index cards, envelopes, transparencies, greeting cards, and iron-on transfers. It does plain, glossy, and coated paper as well. The Color Jetprinter 2050 has a dual-cartridge design—one black and one color.

It is accompanied by a software interface that allows users to configure the printer, set up print jobs, and keep track of the status of jobs.

The Lexmark Workshop CD-ROM that comes with the printer features software that helps users capture, manipulate, and print color images, including Netscape Navigator and ArcSoft PhotoImpression software. Price: \$299.

Panasonic KX-P6500, Panasonic Computer Peripheral Co., 1-800-742-8086: The Panasonic KX-P6500 is a laser printer designed for personal, home-office, and even small-office use, with support for up to 25 users over a Windows for Workgroups peer-to-peer network. It's also easy on the bottom line, providing high-resolution cop-

ies of 2,400 by 600 dpi at six pages per minute at a \$549 retail price.

The KX-P6500 supports Windows TrueType fonts and the Hewlett-Packard PCL printer language. On top of that, it comes with a number of performance-enhancing features such as Panasonic's Edge Enhancement Technology, which improves the quality of text output.

The printer also is capable of making double-sided prints and printing up to four reduced-size pages on a single sheet of paper. The minitower design conserves desk space and accommodates a multipurpose tray that can hold 100 sheets of paper as well as envelopes and transparencies.

Xerox DocuPrint 4508, Xerox Corp., 1-800-349-3769: The first personal printer to carry the DocuPrint brand name used in Xerox's corporate printer line, the DocuPrint 4508 Personal Laser Printer packages high capacity and quality with excellent print-management utilities.

The DocuPrint 4508 can churn out 600-by-600-dpi copies at eight pages per minute. It also supports the PCL printer language and works well under the Windows 95, Windows 3.1, DOS, or OS/2 operating systems. The 4508 can be outfitted with up to three input sources, including a 250-sheet paper tray, in its standard configuration. And it comes with utility software to enhance documents.

A remote interface lets users set the printer configuration from their desktop computers, and status-management software alerts users via messages sent to their computer screens about changes in the printer's status. Price: \$695.

Xerox WorkCenter 250, Xerox Corp., 1-800-349-3769: The WorkCenter 250 multifunction device shows that Xerox is serious about the small-office market. The unit combines printing, copying, scanning, and plain-paper and PC faxing capabilities with software tools that make those capabilities easy to tap. Moreover, the device can do multiple chores simultaneously.

The WorkCenter 250's inkjet engine prints, copies, and produces incoming faxes at 300-by-300-dpi resolution. As a fax machine, it transmits documents from paper or from the PC at speeds of 9.6 Kbps, and many fax features are included.

The WorkCenter 250 comes with Xerox's TextBridge Professional Edition 3.0 OCR software, which allows people to edit documents scanned into their computer. The included ControlCenter software allows users to custom-configure the WorkCenter 250. Price: \$549.

Microtek ScanMaker E6, Microtek Lab Inc., 1-800-654-4160: Microtek's 30-bit ScanMaker E6 flatbed scanner promises quality,

high-resolution, black-and-white and color scans. The ScanMaker can scan documents into a Windows or a Macintosh computer at 600 by 1,200 dpi. It also scans color photos at a speed of 10 bits per RGB (red-green-blue), allowing it to quickly and faithfully reproduce the color tones of the original.

And it comes with scanning software that allows users to preview, correct, and enhance the images they scan in. The ScanMaker E6 supports batch scanning, and it includes a QuickPanel software utility that allows users to send scanned documents to a printer or to fax them from the computer.

The ScanMaker E6 comes in separate versions for professional and novice users. The Standard Version comes with Caere Corp.'s OCR software for text editing and,



Visioneer PaperPort ix



Megahertz AllPoints Wireless PC Card

for image editing, a choice of Microtek ImageStar II or ULead Photo Impact for Windows or MicroFrontier Color It for Macintosh. The Professional Version comes with Caere OCR plus Adobe Corp.'s PhotoShop for Windows or Live Picture 2.1 for Macintosh. Prices: \$599 for the Standard Edition; \$799 for the Professional Edition.

Umax Vista-S12, Umax Technologies Inc., 1-800-562-0311: The Vista-S12 flatbed scanner makes it easy to turn print graphics into digital color images for use on a Windows or a Macintosh PC or to post on a World Wide Web page.

It's one of the fastest color scanners on the market, capable of scanning a full-page color document in just 39 seconds. And its graphical VistaScan interface software makes it easy for novices to scan images, yet

it still provides the flexibility that advanced users need to control and fine-tune how the images will appear. The Vista-S12 scans images at 600 by 1,200 dpi in its standard configuration, but it has software support for scans of 9,600 by 9,600 dpi.

In addition to the interface software, the Vista-S12 is bundled with Adobe PhotoDeluxe, easy-to-use software for editing photo images. Price: \$795.

Visioneer PaperPort ix, Visioneer Inc., 1-800-505-0175: The PaperPort ix is a computer keyboard with a built-in black-and-white scanner and, by most accounts, the industry's most useful and user-friendly software for handling and managing documents.

The 400-by-400-dpi scanner, positioned behind the keyboard's function keys, sits idle until a document—whether a text page, a business card, or a photo—is inserted. Then the PaperPort springs to life and launches its software, and seconds later the scanned document appears on the screen.

From there, with a single mouse click, the document can be worked on in any of more than 100 popular software programs. It also can be faxed, printed, filed for future use in electronic "folders," and more.

One money-saving feature is especially noteworthy: Using software included with the unit and the Netscape Navigator World Wide Web browser (also included with the PaperPort), scanned documents can be sent via the Internet either to an e-mail address or to a fax machine. Since almost all connections to the Internet are made through a local call, that means you can send or fax documents anywhere in the world without incurring long-distance phone charges. Price: \$349.

Finishing Touches

Large yet affordable 17- and 21-inch color monitors that have great graphical capabilities, innovative storage products such as removable hard drives, ergonomically sound keyboards and mice, and other useful computer add-ons can be found in abundance these days. Here are just a few of these products that have caught our eye:

Samsung SyncMaster 17GLsi, Samsung Electronics America, 1-800-767-4675: The 17-inch SyncMaster 17GLsi is designed to optimize color computer graphics, including those on the World Wide Web. It provides a 15.75-inch viewing area, and it can display images of up to 16 million colors at 1,600 by 1,200 dpi and at a refresh rate of 100Hz.

The SyncMaster 17GLsi works with either a PC or a Mac, and it meets emissions safety standards. To brighten views of the World Wide Web, Samsung has bundled software called Colorific. The software adjusts the color on the 17GLsi to more

SMALL BUSINESS COMPUTING

accurately match that of the many World Wide Web sites set up using Silicon Graphics Inc.'s Cosmo Color technology. Price: \$999.

ViewSonic P815, ViewSonic Corp., 1-800-888-8583: Graphics professionals and others with heavy graphics-display needs will be interested in ViewSonic's giant P815 color monitor. The 21-inch, flat, square display has 20 inches of viewing space and a 0.25mm dot pitch for larger, sharper, and more easily viewed images. It's also capable of resolutions of up to 1,800 by 1,440 dpi.

The P815 uses ViewSonic's ViewMatch technology, which matches screen color to printer output. Also, the P815 comes with software that allows users to control monitor settings from their computer.

The P815 can be installed and configured automatically by Windows 95. It complies with energy-efficiency and emissions-safety standards. Price: \$2,195.

Fujitsu DynaMO 230 Portable PC Card, Fujitsu Computer Products of America, 1-800-626-4686: Backing up data on a portable computer is easy using Fujitsu's DynaMO 230 magneto-optical drive.

The device connects to a notebook computer via a PC card slot and stores up to 230MB of data on 3.5-inch magneto-optical disks, which are available in 128MB and 230MB versions. Data transfer is fast—up to 1.6MB per second. The DynaMO 230 is easy to carry; it's about an inch thick and weighs about a pound. Price: \$499.

Iomega Ditto Easy 3200, Iomega Corp., 1-800-697-8833: The Ditto Easy 3200 is the newest member of Iomega's family of data-storage products, which includes the popular Zip and Jaz lines. This tape-backup device is capable of storing up to 3.2GB on a single cartridge using data compression, which makes it possible for the Ditto to back up almost any computer hard drive. And with a data-transfer rate of 19MB per minute, backups are fast.

The Ditto uses industry-standard 1/4-inch tape cartridges and is available as an internal drive or as a portable device that connects to a computer's parallel port. The Ditto is compatible with DOS, Windows 3.1, Windows 95, and OS/2. Price: \$299.

Regal CDC-4X, Regal Electronics Inc., 408-988-2288: The Regal CDC-4X is about the size of a standard external CD-ROM drive, but it's five times larger in capacity. That's because the CDC-4X—a quad-speed CD-ROM player—accepts a removable cartridge that can be loaded with five CDs of any kind—data, photo, or audio.

The CDC-4X works with about every operating system imaginable. Installation is as easy as it can be for any device that

requires addition of an adapter card to the computer—which is to say, it's not foolproof by any means—and, perhaps best of all, the CDC-4X retails for only \$495. If your business operations require employees to access information spread across many CDs, the Regal CDC-4X could be a substantial productivity enhancer.

SyQuest EZFlyer 230, SyQuest Technology, 1-800-245-CART (1-800-245-2278): The newest removable-cartridge drive from SyQuest, the EZFlyer 230, enjoys one enormous advantage over its competitors: Its average data-access time of 13.5 milliseconds and maximum data-transfer rate of about 5MB per second for the internal SCSI model and 1.25MB per second for the



SyQuest EZFlyer 230



Regal CDC-4X

external model rival the performance of the best hard-disk drives.

But unlike hard-disk drives, the EZFlyer's capacity is limited only by the number of 230MB cartridges you choose to purchase for about \$30 each.

The small, lightweight external version connects via a cable provided with the drive to the parallel port that's standard on all desktop and notebook computers. It's easy to install on computers running any among the Windows 95, Windows 3.1, Windows NT, OS/2, or DOS operating systems.

Moreover, the drive shares the parallel port with a printer, so once it's installed it can stay installed. The internal version requires a more difficult and less foolproof installation, but it may be worth the effort if the faster data-transfer rate it provides is important. Price: \$299.

Logitech Cordless MouseMan 96, Logitech Inc., 1-800-231-7717: Tired of fighting with mouse cords? Logitech's Cordless MouseMan 96 will sway the battle in your favor.

This radio-controlled mouse can be used from up to 6 feet away from the computer, communicating via a receiver you connect to the PC's serial port. Unlike cordless mice that use infrared technology, the Logitech device doesn't have to be in the line of sight of the computer to work.

The MouseMan also comes with software that allows the user to customize mouse functions, such as what each button does. The HyperJump feature allows instant execution of frequently used Windows 95 commands. The Cordless MouseMan works with computers running Windows 3.1, Windows 95, or DOS. Price: \$79.95.

Megahertz AllPoints Wireless PC Card, U.S. Robotics, 1-800-527-8677: Radio has gained acceptance among many mobile users as a wireless-data-transmission alternative to cellular. The versatile AllPoints Wireless PC Card from U.S. Robotics subsidiary Megahertz allows e-mail and data to be sent and received with the use of a notebook computer or PDA via the RAM Mobile Data Network, which covers most U.S. cities and connects to the Internet.

The Wireless PC card comes with a radio antenna and is compatible with Windows 95, Windows 3.1, DOS, and Macintosh, as well as the Apple Newton and Hewlett-Packard OmniGo PDAs.

The AllPoints isn't fast, with typical data-transfer rates of just 8Kbps (9.6Kbps with data compression). The trade-off is that messages can be sent from practically anywhere, and users aren't charged for connecting to the RAM network. Instead, they pay about 5 cents for each message sent or received plus a monthly provider charge, which runs from \$29 to \$75.

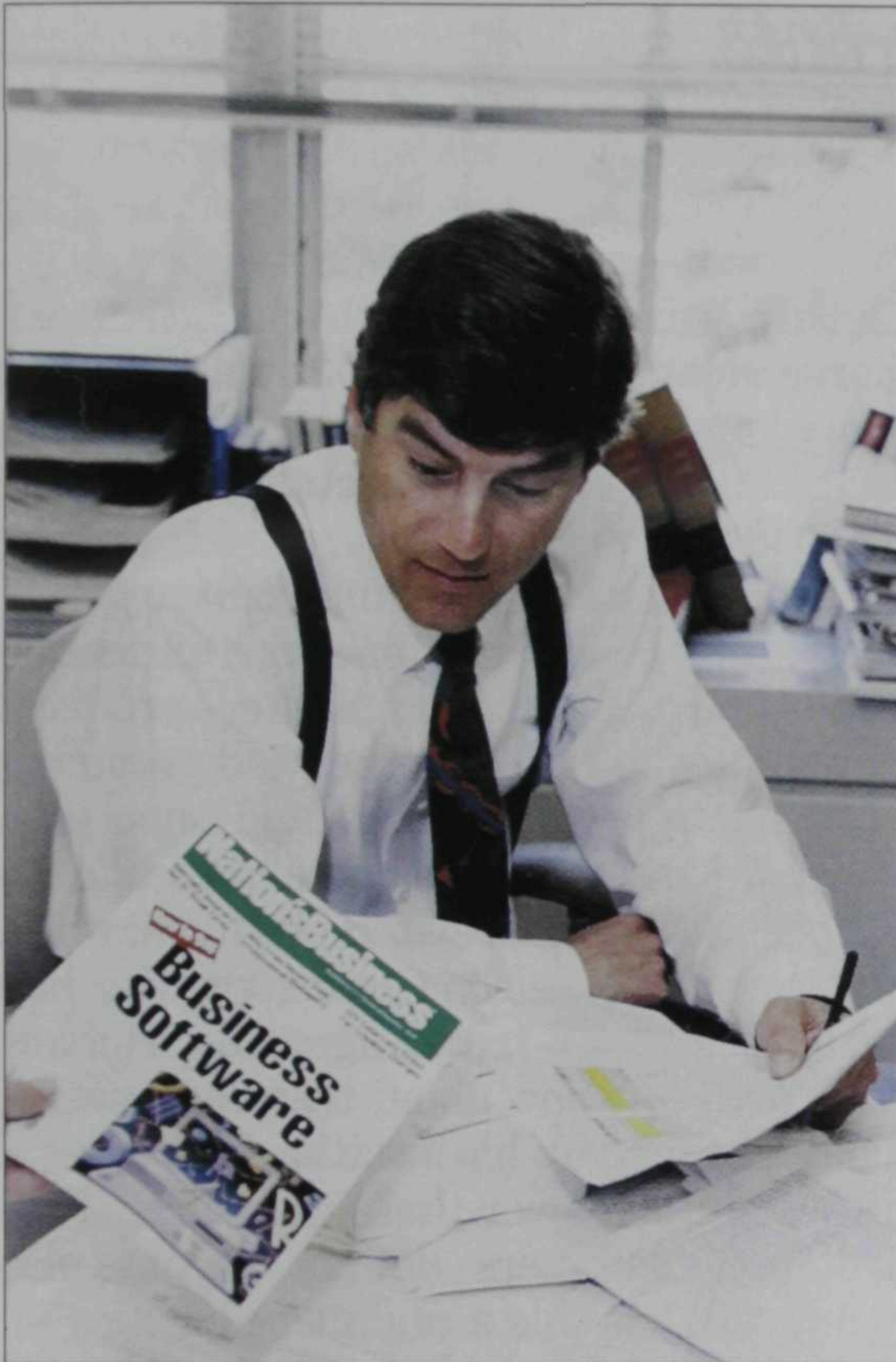
AllPoints comes with network-access software from RadioMail Corp. and Wynd Communications Corp. Price: \$499.

Key Tronic Lifetime Classic Wireless keyboard, Key Tronic Corp., 1-800-262-6006: Though it looks like a normal 104-key PC keyboard, the Lifetime Classic Wireless lets you do something other keyboards can't: type from across the room. This capability is well-suited for applications such as business presentations, where users often must roam from their computers.

The keyboard sends commands to the computer using an infrared signal, which can be received from as far as 50 feet away—provided the keyboard is within the line of sight of the computer.

The keyboard itself features three keys that perform common Windows 95 functions, but it is compatible with DOS, OS/2, and Windows 3.1 as well. Price: \$89.99. **NB**

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MARKETING

Selling By The Book

Is there a catalog in your business's future? Here's help for deciding whether to take that challenging route.

By Roberta Maynard

With *Back in the Saddle*, a catalog of products and gifts for horse enthusiasts, Geoff and Lynn Wolf are doing what at least one-third of catalog start-ups never do: breaking even.

Now in its third year of operation, the Durango, Colo., company has captured a sliver of the catalog market, in which nearly \$75 billion will be spent this year.

Sales by consumer and business-to-business catalog companies are expected to reach \$74.6 billion, up from \$47.8 billion in 1990, according to a Direct Marketing Association (DMA) study conducted by the WEFA Group, an econometric-forecasting firm in Burlington, Mass. In six years, revenues will reach more than \$103 billion, the WEFA Group says.

Last year, more than 13 billion catalogs were mailed to consumers and businesses, according to the DMA, a trade group based in New York City.

Catalogs aimed at businesses are in a fast-growth mode, with revenues increasing at about 7.1 percent per year. Consumer catalogs, on the other hand, though enjoying rising revenues, are an increasingly saturated and fragmented business—a tough, competitive environment for start-ups.

With thousands of catalogs vying for customers' dollars, the challenge for newcomers is to find a niche in a marketing landscape of ever-smaller niches.

When Lynn Wolf resumed horseback riding in 1992 after 15 years away from the pastime, she and Geoff began doing research on whether there was a market for riding-related products and gifts. In their case, the niche was already well-documented. Geoff found a plethora of

Careful research helped Geoff and Lynn Wolf rein in success with their catalog of items for horse enthusiasts.

horse-related information from libraries, clubs and associations, and equestrian magazines geared to caretakers, owners, and riders.

The research was important when it came time to create a package of distinctive—and often exclusive—products ranging from riding clothes and grooming supplies to jewelry, books, and toys.

John McManus, creator of *Magellan's*, a catalog of travel-related products, was a veteran of the airline industry who had often dealt with travel agencies. He was confident he knew about travelers' needs, but he backed up his intuition with careful research to answer these questions: Who will my customers be? Is anyone else doing this? Is this a real niche?

In fact, he toyed with the idea of starting a retail store rather than a catalog, but he decided that would be too limiting. "The smaller the niche, the more there is to argue in favor of a catalog,



PHOTO: ©DEAN CONGER

Success In Someone Else's Catalog

All catalog companies have one thing in common: They need to fill the pages of their catalogs with items that will excite readers and generate orders. They want products that are unique, whether they're garden hoses or grandfather clocks.

The whimsical wooden figures that Robert DuLong designs and produces in his small workshop in Phoenix, N.Y., have just such appeal. The life-size carvings of people, footstools in the shape of animals, and bird feeders that he creates at his firm, Woodendipity, have appeared in catalogs put out by Touchstone, the Smithsonian Institution, and others. Every year for the past five, he has designed an exclusive product for Neiman Marcus' catalog. But DuLong says that for a company such as his, with under \$1 million in revenues, getting noticed by buyers for catalog companies can be difficult.

Magazine advertising to attract their attention sometimes pays off, says DuLong, who once sold a product to a gardening catalog after a buyer saw his ad in a regional publication. But for most of DuLong's 14 years in business, his most successful method of getting products into catalogs has been by exhibiting at trade shows. "They've got to see what you have," he says. "If you're at a show, they figure you can afford the rent, and that you're serious."

When DuLong decided to shift from wholesale to retail three years ago, he discovered another venue—the Good Catalog Co., a Portland, Ore., firm that produces nine catalogs featuring items for the home and for personal use.

Founded four years ago, the company conceived of advertising as a way to help underwrite the costs of catalog production and order fulfillment. Kimberly Russell, the company's director of sales, says most of the products featured in the catalogs come from entrepreneurs.

Advertising rates start at \$3,175 for one-sixth of a page. The company photographs the product, writes the copy, handles mailing and fulfillment, and helps improve the product or the packaging.

Manufacturers and distributors receive

about 80 percent of the retail price instead of the average wholesale margin of 46 percent, according to the company. And, for hot-selling products—like some of DuLong's—the company extends the run of the ad at its own expense or otherwise subsidizes the cost to the manufacturer.

Another alternative is to appeal directly to catalog companies, which have buyers

rather than the geographic limitations of a store," says McManus, whose business is based in Santa Barbara, Calif.

Requirements For The Start

A major reason that many catalog companies fail is one common to all businesses: insufficient capital. Producing catalogs is expensive. No matter how humble, each requires photography, descriptive copy, design and layout, printing, mailing, inventory management, and fulfillment of orders—along with creation and management of a database, an all-important factor.

There may be unforeseen costs, too. Catalog companies are still feeling the heat from dramatic increases in paper and postal costs over the past two years. And the postal rate restructuring that took effect in July may add costs for direct mailers by requiring them to bar-code and presort their mailings to qualify for the lowest rates. (See "Postal Changes Raise The Stakes," June.)

It usually takes from three to five years to make a profit from a catalog. Companies typically start with a rented mailing list—preferably of people who have bought from catalogs in

the past—then gradually build a solid database of buyers they can call their own. The Wolfs' has grown to 22,000.

Dick Hodgson, president of Sargeant House, a catalog consulting firm in West Town, Pa., says that "the first year, you focus on establishing the right price points and products. The second year, you get as many first-time buyers as possible. The third year is the moment of truth: how many buy a second and third time. That's where you make your profit."

Careful maintenance of the database is necessary to track what is known as RFM (recency, frequency, and monetary), which is used to determine whether to keep people on the mailing list based on how recently they purchased, how often, and how much they spent.

How Much Will It Cost?

The amount of capital needed to start a catalog operation depends on the sales target and "how soon you want to see black," says catalog consultant Bill Dean, president of W.A. Dean & Associates, in



PHOTO: ©GERRY YOUNG

The wooden figures that Robert DuLong of Woodendipity produces carved a niche in the nearly \$75 billion catalog market.

who specialize in certain types of products.

At Successories, Inc., a firm in Lombard, Ill., that specializes in motivational items for walls and desks, product submissions are evaluated by a buyer, by the vice president of product development, and by a committee of managers from various divisions within the company.

The company conducts internal and external tests—including the use of focus groups—to judge the appeal and quality of potential new products. It can take from two to six months from the time a product is submitted for it to be accepted in the catalog, which contains about 800 items.

A company that will be supplying products that are expected to be in great demand and that customers expect to receive quickly must be reliable and reputable, says Jim Beltrame, Successories' president. Like other catalogers, the company often conducts financial checks of new suppliers and visits their facilities to make sure they're up to snuff.

MARKETING

San Francisco. He cites as an example a regional apparel store with a new catalog of 32 to 40 pages with three or four issues per year, mailed nationally. "Bare bones—it takes a half to a quarter of a million cash outlay in the first year to get up and running," he says.

John McManus, on the other hand, took a lower-cost approach when he launched his travel-products catalog seven years ago. He took an adult-education course on computer graphics, in which he learned how to do page layout. He photographed the items himself, and he worked with a local printer to produce a 32-page, black-and-white catalog. He still writes all the copy for the catalog, which is now in color and has grown to 68 pages.

"For a good-size catalog to hit the ground running with an in-house crew, a good amount of stock, and a first mailing of 50,000 catalogs, it would take close to \$100,000," he says, "but you could certainly test the waters for \$25,000." His first mailing went to 25,000 frequent travelers on a list rented from a list broker.

McManus, who now has 60 employees and \$6 million in annual revenues, knew his catalog was a go within six months, although it was three years before the company was in the black.

An important step on the road to profitability is creating a unique, professional-looking catalog. Geoff Wolf spent months doing research, reading books, and poring over hundreds of catalogs to



PHOTO: T. MICHAEL KEZA

Product suppliers must be reliable and reputable, says Jim Beltrame, president of Successories, Inc.

learn what products were already available, their prices, and how the catalogs looked.

Along with following basic design principles, says Wolf, "you have to consider what kind of image you are trying to portray.

What is your competition doing: small or large catalogs, color or black and white?

"Position yourself so you have as much authority as your competition. You have to maintain the presentation; people like to buy from successful companies."

Those considerations then must be combined with cost factors, he says. "We started in letter size—roughly 6 inches by 9 inches—to keep costs down," he notes, but because of postal reclassification, the firm no longer can save money by mailing them as letters, "so we decided we might as well make the book larger."

When creating a design or approving an artist's design, says catalog consultant Hodgson, keep in mind that "a catalog is a graphics medium. In other advertising, the copy is king. With catalogs, concentrate on presenting the product. People look at the pictures; if [the pictures] are appealing, they'll read the copy."

Product descriptions are important, though, says Hodgson. Because buyers have no way of touching the merchandise, the catalog must provide all information needed to make a buying decision. Copy can also help establish credibility and a distinctive personality for the company.

On-Line: The Future Of Catalogs?

As more companies establish a presence on the Internet, many of the large catalog firms are testing the waters. Spiegel, Sundance, J. Crew, Hammacher Schlemmer, Lands' End, The Sharper Image, and Eddie Bauer are all on-line. Many small catalogers—some quite small—are rushing to be there, too.

Among the obvious advantages of going on-line is that there are no paper and postal costs. But with the Internet shopping audience relatively small (studies show that most consumers don't use the Internet) and the process of calling up graphics-heavy World Wide Web pages time-consuming, sales aren't brisk.

"Just about any cataloger you speak to will tell you that this is a time for exploration of the medium," says Donna Krampf, director of consumer public relations for the Direct Marketing Association, in New York City. Catalog companies are learning what types of products to offer on-line and how this medium differs from others.

Spiegel, which went on-line early this year, won't divulge its sales figures. "We are getting purchases, but the sales are not significant," says Joy Villalino, Spiegel's media manager. The company views it as a long-term commitment.

Spiegel's focus is on using the medium to update product or price changes much faster than is possible with print catalogs. "A [print] catalog's life span is six months," Villalino says. "To make the items much more seasonal, we update [the on-line catalog] every month, with a major refocus every two months."

Lands' End, which has been on the Internet since mid-1995 and showcases 100 of its best-selling products, also declines to give sales figures. Says spokeswoman Anna Schryver: "It is most important for us as a communications tool. If our customers are on the Internet, we want to be there, too."

It remains to be seen whether the Internet and catalog buyers are compatible. "The biggest problem with the Internet is

that time and convenience are the major reasons people shop catalogs," says catalog consultant Jack Schmid, president of J. Schmid & Associates, in Shawnee Mission, Kan. And for now, at least, the Internet offers neither, he says.

For electronic shopping to really take off with consumers, says Schmid, "we're going to have to be able to sit in our living rooms, bring up an apparel catalog [on an interactive television], and do our surfing with a [remote-control channel changer]."

Here are the Internet addresses of the companies featured in this report:

■ Back in the Saddle: <http://www.backinthesaddle.com>

■ Spiegel: <http://www.spiegel.com>

■ Lands' End: <http://www.landsend.com>

■ Woodendipity: <http://www.woodendipity.com>

■ Good Catalog Co.: <http://www.goodcatalog.com>

■ Successories, Inc.: <http://www.successories.com>

The Direct Marketing Association's address is <http://www.the-dma.org>

Books and seminars can provide hundreds of other details, such as tips on what to put on the cover, the back, and other "hot spots"; when to mail; how to design a user-friendly order form; how to select printers and color separators; how to comply with the Federal Trade Commission's Mail Order Rule on timely shipping of merchandise; and what to ask before renting a mailing list. (See the box at right.)

New Developments

Despite the competitive environment and fluctuation of production and shipping costs, several developments offer opportunities to catalog retailers. Among them are new technologies that aid production and design, expansion to international markets, and changes in catalog delivery, specifically the use of CD-ROMs and the Internet. (See the box on Page 60.) Another development is the growth of the nonconsumer sector.

"The biggest trend we're seeing is business-to-business catalogs really taking off," says Donna Krampf, the Direct Marketing Association's director of consumer public relations. Sales of office paper and other office supplies are hot, she says, and key growth is expected in industrial machinery and equipment, including computer software and hardware. Of the nearly \$70 billion in catalog sales last year, \$26.6 billion was to businesses. The category is expected to grow to \$40.5 billion in six years.

A continuing and important trend is companies' use of catalogs to drive their retail business—and vice versa.

Successories, Inc., a Lombard, Ill., company that sells motivational products for walls and desks, started as a business-to-business catalog 11 years ago. It has since created a retail chain of 100 stores as well as a second catalog geared to consumers. The company's revenues—about half of which come from the business catalog—are projected to be \$55 million for 1996, nine times what they were in 1992.

Conversely, many retailers are using catalogs to build brand awareness, to increase store traffic, or to learn where their target customers reside—information that will help them select sites for new stores.

A key to success for companies selling to both catalog and store shoppers is understanding that the two groups have different buying patterns and expectations.

Catalog shoppers are not impulse buyers; they often keep a catalog for several months before ordering, says consultant Hodgson. They also find catalogs convenient to use, and they put a premium on their time.

To attract—and keep—them, businesses must offer an enticing catalog with satisfaction guarantees for products, an easy ordering process, quick delivery, and quality customer service. In the crowded catalog world, anything less won't do. **NB**

Resources In Print

Catalog Age is a monthly magazine published by Cowles Business Media, in Stamford, Conn. An annual subscription is \$88 for 13 issues plus a sourcebook. The magazine covers every aspect of the catalog business, from marketing and financing to production. To order, call (203) 358-4227.

The Direct Marketing Association is the trade group for catalog companies. Membership dues are on a sliding scale based on annual sales volume. For membership information, call (212) 768-7277, Ext. 1155. The DMA offers a variety of services:

- The 14th annual catalog conference and exhibition, scheduled for June 16-19 in San Francisco.

- The Shop-At-Home program, which helps DMA-member companies get media coverage of their consumer publications. For information, call Donna Krampf at (212) 790-1515.

- "Catalog Essentials," a three-day seminar, is held at various times throughout the year in New York and Chicago. For a schedule, call (212) 768-7277.

- For a publications catalog, call (301)

604-0187. Among those available are:

The Complete Guide To Catalog Marketing (Dartnell Corp., \$65), by Dick Hodgson. It offers help with writing copy, order fulfillment, and design.

How To Write Powerful Catalog Copy (Dartnell Corp., \$49.95), by Herschell Gordon Lewis.

How To Create Successful Catalogs (\$89.95) and *101 Tips For More Profitable Catalogs* (\$24.95), both by Maxwell Sroge and published by NTC Business Books.

Business-to-Business Direct Marketing (Direct Market Publishing, \$79.95), by Trace Emerick and Bernard Goldberg.

Check your local library for the following reference publications, which are also available for purchase through the DMA:

The 1996 Directory of Mail Order Catalogs (Grey House Publishing, \$165), by Richard Gottlieb.

The National Directory of Catalogs (Oxbridge Communications, Inc., \$395).

The 1996 Directory of Business-to-Business Catalogs (Grey House Publishing, \$135), by Leslie McKenzie.

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Case Studies In Cash Management 101

By Gloria Gibbs Marullo

For most small businesses, employees account for the biggest expense and the largest cash outflow, which poses a major challenge: How do you manage cash flow to meet payroll through yearly ups and downs in customer demand for your products or services?

Clearly, there are various ways to approach this problem. Here are the solutions that work for three different businesses.

A Seasoned Player

Joe Sergio, of Sergio's Pools & Spas in South Bend, Ind., had to find a way to boost business in the cold months, when pool construction and maintenance grind to a standstill. "Managing cash flow is my No. 1 stress," says Sergio. "Employees are my second."

Four years ago, Sergio and his two partners—his brother Tony and brother-in-law Al Scott—hit upon a solution. They started First Response Construction, a business that repairs fire damage.

"Pools are obviously seasonal," says Sergio, "and most of the fires happen in winter." Together the businesses employ 50 people year-round. Some specialize in pool construction and maintenance, some work in fire-damage rehabilitation, and some make up a "swing" force that works at each company.

"We've never had a layoff," says Sergio, "and we put a lot of time and thought into keeping employees motivated and productive. Our goal is to be both profitable and ethical—and have a good time doing both."

To keep track of cash on hand, Sergio

uses a computer to generate weekly and monthly cash-flow projections. "When you talk about cash flow, you need to differentiate between growing companies and stable ones," he explains. "Projecting cash flow is never easy, but with growth, you have to start doing things like projecting payroll as a percentage of sales instead of absolute dollars."

"Growth means having to hire new employees, buy new trucks, and keep bigger

bank's senior vice president of marketing before leaving to start Heptagon in 1979. "I've built a career and a business in marketing," says Batalis, "but when it comes to cash, I still think like a loan officer."

He has 17 full-time employees, and payroll is by far his firm's largest cash outflow. To accommodate the inevitable ups and downs in demand from ad clients,

Batalis supplements his full-time staff with part-time employees. "It works great," he says. "There are a lot of creative people out there who, for one reason or another, want a part-time schedule. It works for them, and it helps us run 'lean' without the 'mean.'"

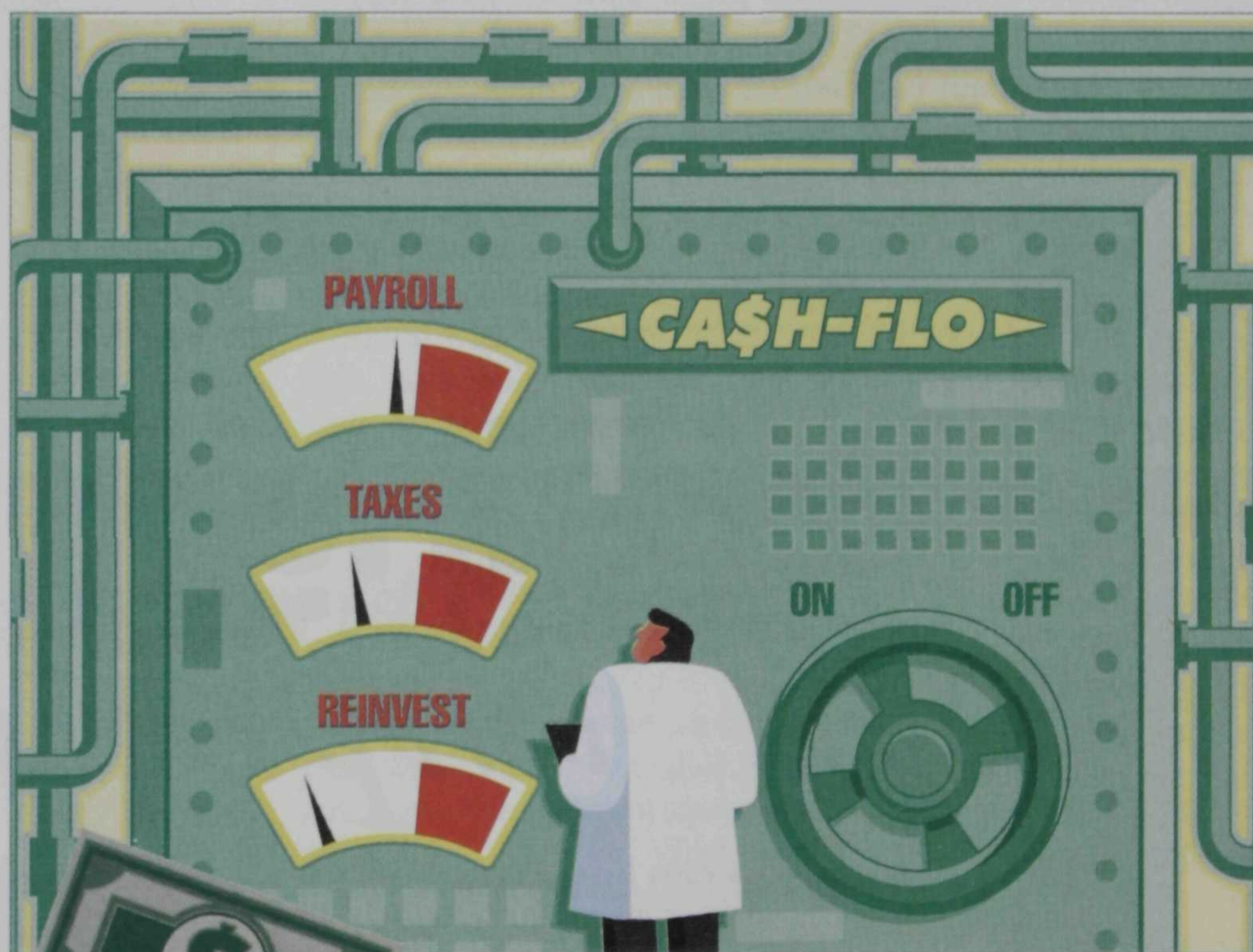
Batalis strives for steady, measured growth of 4 to 9 percent a year. To avoid cash-flow problems, he says, "we don't want to grow too fast, and we don't want any gorilla accounts."

"A gorilla account is any account that's simply too big for your business. I've seen too many

companies hire staff and buy equipment to handle one big customer and then have the client leave. That's part of being a gorilla. You pretty much go when and where you please."

As a rule of thumb, Batalis says, a gorilla account is any client that represents at least 20 to 25 percent of a company's total revenues. "We've had to turn some away," he says.

The banker in Batalis keeps a close eye on both credit and collections. "Our philosophy of business is to deal only with people who pay their bills on time," he explains. "We don't have a large number of accounts, and that allows us to



CHARTS AND ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

inventories," he continues. "You also end up with bigger receivables. When you have three or four \$100,000 construction rehab jobs, and the insurance company pays a lump sum on completion, you can tie up a lot of money for a long time."

Avoiding The Gorillas

For Chris Batalis, president of Heptagon Inc., an advertising agency in South Bend, cash management and managing the size of his work force are two sides of the same coin. And for Batalis, both come easily. "After all," he says, "I started out 28 years ago as a loan officer."

He soon switched hats, however, and rose through the ranks to become the

Gloria Gibbs Marullo is a CPA and business writer in South Bend, Ind.

SMALL BUSINESS FINANCIAL ADVISER



keep tight control over accounts receivable."

Overtime To Stem The Tide

While part-time employees solve Batalis' need for an occasional boost in his work force, JoAnn Martin and John Reck, co-owners of Excel Press Inc., in Kalamazoo, Mich., opt instead to give employees overtime whenever orders surge.

Excel Press specializes in foil stamping, embossing, and die cutting. "We have a reputation for quality that keeps our commercial printing customers coming back," says Martin.

Started in 1986, Excel has grown from one employee to seven. The right employees are critical in the printing business, says Martin. A person with prior printing experience can do a reasonably good job within a few months. But it typically takes at least two years to become technically proficient, she explains.

As a result, Martin and Reck offer employees flexible hours and lots of overtime. They use overtime as a barometer to determine when to add another full-time worker. "When the [overtime] workload starts to get out of hand, we know it's time to hire another person," says Martin.

Because Excel's client list is small, credit and collections are not usually a problem. Excel requires new clients to complete a credit application that asks for references. "We recently had a client go bankrupt, but overall our clients pay in 30 days," says Martin.

Extra Efforts

To help them over cash-flow rough spots, all three companies have lines of credit at their banks. "We can forecast the long-term growth of Excel," says Martin, "but from month to month over a 10-year period, we can't see any predictable pattern whatsoever."

Batalis and Sergio also have tried "sweep accounts" that periodically move excess cash out of a company checking account and invest it in money-market or other funds that yield a higher return. While Sergio is satisfied with his company's sweep account, Batalis canceled his. "We gave it up," he says, "mainly because the costs of maintaining it outweighed the benefits."

Cash management is a challenge that each small business must face and resolve on its own terms. As the entrepreneurs above demonstrate, it's possible to use a kinder, gentler philosophy of cash management to keep both cash and employees working.



EMPLOYEE OWNERSHIP

An ESOP Can Improve A Firm's Performance

Two recent surveys show that most businesses prosper when employees become owners through employee stock ownership plans (ESOPs). About 10,000 companies nationwide have ESOPs, with about 10 percent of the U.S. work force participating in them.

In a questionnaire sent out to 1,150 companies with ESOPs by the Employee Ownership Foundation (affiliated with the ESOP Association), 75 percent of the respondents said their financial figures improved the year their ESOPs were established, and 60 percent said overall productivity had improved after the ESOP began.

Seventy-six percent of respondents said their companies employed fewer than 250 workers.

Meanwhile, some reasons why companies seem to fare well when employees become owners can be found in the results of another questionnaire, sent to more than 600 small and medium-sized businesses by Reish & Luftman, a Los Angeles-based law firm specializing in ESOPs.

Of the companies that responded, 93 percent reported that absenteeism declined, 86 percent said turnover dropped, and 79 percent said morale increased after they added an ESOP.

"It's human nature to do better, to make the company grow, when you have a piece of the action," says Kris Sandberg, ESOP education committee director with Minneapolis-based AbleNet, a company that makes products for people with disabilities and that established an ESOP four years ago.

Even customers seem to like ESOPs. "We advertise the fact that we are an employee-owned bank," says Janine Toth, a marketing officer with Heritage Olympia Bank in Chicago Heights, Ill., "and we've signed up new customers, mostly small businesses, who know the staff will remain basically the same because we're the owners."

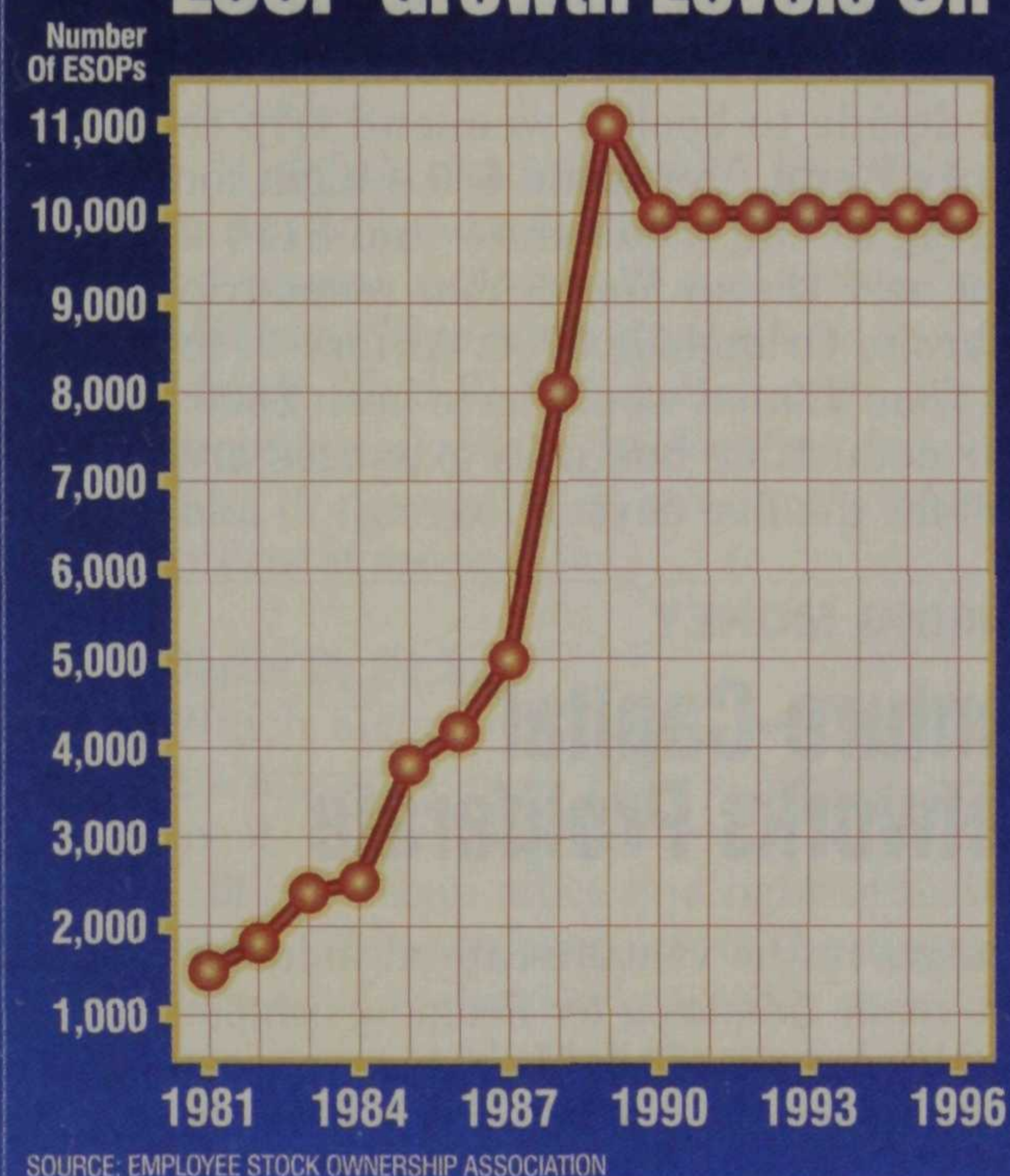
While many of the respondents to Reish & Luftman's survey said they set up ESOPs to benefit their employees, others said their plans were installed primarily for tax benefits reaped by the company's original owner.

"In our case the founder decided to use the ESOP route to cash out and retire,"

says Jerry Margraf, president of Bertrand Products, an aerospace machine shop in South Bend, Ind. The company's ESOP trust was able to borrow money from a local bank to buy out the owner's shares for the employees' retirement plan.

The founder was able to defer a significant capital-gains tax on the cash he received in the buyout, and the employees were able to become owners of a thriving business without putting up any of their own money. The company pays the bank a certain amount every year to pay off the loan. (A company may choose to pay the ESOP, which then pays off the loan. Any

ESOP Growth Levels Off



such arrangements, however, should be worked out with a professional specialist in the field.)

Expenses involved in setting up an ESOP can run from \$15,000 to \$20,000, says Bruce Ashton, a partner with Reish & Luftman. Administration costs can run to an additional \$2,500 to \$5,000 the first year and each year thereafter.

One way to control costs is to get in touch with the ESOP Association, in Washington, D.C., at (202) 293-2971, to request instructive printed materials plus names and numbers of state chapters and small businesses in your area to help you avoid making costly mistakes.

Another source of information is *The Employee Ownership Reader*, a book available for \$25 from the National Center for Employee Ownership, in Oakland, Calif.; call (510) 272-9461.

—Peter Weaver

The author is a free-lance writer in Bethesda, Md.

SMALL BUSINESS FINANCIAL ADVISER

TAX DEDUCTIONS

The Difference Between Business And Pleasure

It's sometimes easy to mix business and pleasure—especially with the trend toward booking business conferences at resort areas like Orlando or Las Vegas. The hard part is combining business, pleasure, and a tax deduction.

The tax rules on combining business and vacation travel are clear: If your trip is all business, all your travel and lodging are deductible. If your trip is primarily for pleasure, only expenses directly related to business are deductible.

Say you live in Chicago and plan to attend a five-day trade show in Tampa, Fla. As long as you are going to be in Florida, you decide to book a weekend trip to Disney World. You spend \$90 a night for lodging at the trade show and \$110 a night near Disney World. Your round-trip airfare to Orlando is \$700. Airfare to and from Tampa would have been \$600. Your deductible business expenses are \$450 for the five days of lodging and

\$600 for travel.

What happens if you spend only two days at the trade show and four days waiting in lines at Disney's Epcot Center? You'll have a hard time proving to the Internal Revenue Service that the trip is primarily business.

The agency would question a deduction for any travel when your ratio of personal to business days is 2-to-1.

For the time you spend at the trade show, however, you can deduct 50 percent of the cost of your meals and 100 percent of your lodging, registration fees, tips, business telephone calls, rental cars, and even dry cleaning.

There is one small loophole for long weekends. If, for example, you would like to spend the weekend in San Francisco and you have clients in the area, schedule your business appointments for Friday and Monday. Saturdays and Sundays

don't count as personal days if you have a bona fide business reason to stay over the weekend. Because you had clients to meet on Monday, you can deduct 100 percent of your round-trip travel, but not your lodging and other personal expenses for Saturday and Sunday.

But back to Mickey and Minnie. What if your five-day trade show is in Orlando and your spouse and kids want to come along? Although you can't deduct the expenses for your family, you can deduct what it would have cost if you had attended the conference by yourself. If a hotel room for a family is \$140 and a single room is \$110, you can take the \$110 deduction. If all of you fly, you can deduct only your travel. If, however, you drive to Orlando, you can deduct all your car expenses because it would cost the same to drive with or without passengers.

—Gloria Gibbs Marullo



RAISING MONEY

Venture-Capital Networks Proliferate

Changes in the venture-capital industry have made financing for fledgling companies the dearest of all. Many big venture-capital partnerships are focusing time and money on companies already in their portfolio. Others have come to realize that it's more cost-effective to finance a few big deals than to do a plethora of little ones.

In fact, according to Jeffrey Sohl, director of the Center for Venture Research at the University of New Hampshire's Whittemore School of Business, the \$3 billion to \$4 billion invested each year by the nation's venture-capital partnerships is just a small part of the \$50 billion to \$60 billion he says America's emerging high-growth companies need each year. "When you look at the numbers," he says, "it becomes obvious that venture capital represents a source of capital for an extremely limited number of companies."

But don't give up if you're searching for cash. You can get venture capital. Sohl says wealthy entrepreneur investors are pumping \$10 billion to \$20 billion each year into emerging enterprises. Though this amount falls short of the aggregate

needs, it still dwarfs the investment made by traditional venture-capital partnerships and offers a viable source of financing for capital-hungry entrepreneurs.

And best of all, says Sohl, these once-shadowy investors are becoming more accessible through a growing number of venture-capital clubs and networks that now dot the landscape.

The venture networks solicit business plans from companies seeking capital and distribute the executive summaries or profiles of key variables of the proposed deals to network members. Investors who



are interested in learning more about a particular company work through the network to arrange for a formal presentation that goes into detail about the company and its plans.

Thereafter, the company and the investor work at their own pace to arrive at a deal.

The reasons for this abundant supply of potential investors rest with some of the changes that have occurred on the industrial landscape over the past 25 years, according to Sohl. "The expansion of vast new markets driven by technology, combined with a robust environment for initial public offerings since 1983, has created a new generation of wealthy entrepreneurs."

Many of these entrepreneurs are trying to recycle their wealth by investing in up-and-coming companies, he says. But there is often another motivation. "Many of these investors are trying to contribute something back by providing a resource which they could have used back when they were trying to get their companies off the ground."

—David R. Evanson



The author is a financial consultant in Ardmore, Pa.

Representative Sample Of Venture-Capital Networks

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Investor's Circle	
West Chicago, Ill.	(708) 876-1101
Technology Capital Network at M.I.T.	
Cambridge, Mass.	(617) 253-7163
Western Investments Network	
Seattle	(206) 441-3123

SOURCE: JEFFREY SOHL, UNIVERSITY OF NEW HAMPSHIRE



INVESTING

The Easy Way To Play The Real-Estate Market

By Randy Myers

Investors nervous about the outlook for stocks and bonds may want to consider shifting a portion of their assets into real-estate investment trusts, which are fast becoming the most popular way to invest in real estate.

There are no guarantees that real estate will outperform other assets, of course. The real-estate market is extremely diverse and prone to boom-and-bust cycles, and many sectors, such as shopping centers and downtown office buildings, are still recovering from a severe price slump that struck at the begin-

raises capital from a vast pool of investors—much like a mutual fund—and invests that money in real estate. It then pays out at least 95 percent of its taxable income as dividends. (In doing so, it escapes corporate-level taxes on that portion of its income.)

Shares of most REITs trade on major stock exchanges, just like stocks, so you must buy and sell them through a broker.

REITs are popular in part because they provide an economical way to own a diversified portfolio of real estate. Although they've been around for nearly 40 years, their popularity soared after enactment of the 1986 tax-reform law, with

A Diversification Tool

As inconsistent as those numbers may be, they spotlight one of the reasons for considering real-estate investments in the first place. Adding REITs to a portfolio of stocks and bonds allows an investor to build a truly diversified collection of investments in which some will do well when others are doing poorly, lessening the likelihood of a catastrophic decline for the whole portfolio at any one time.

Indeed, three of the last four times the Dow Jones industrial average fell 100 or more points in a day (each decline representing a dip of about 2 percent), REITs as a group fell only about 0.5 percent.

"I think anybody who has enough money to have a balanced portfolio should have some exposure to real estate," says Michael Mead, an analyst with Legg Mason Wood Walker in Baltimore. An appropriate allocation, he suggests, would be 5 to 10 percent of an investor's total investment assets.

Sector By Sector

Which niches of the real-estate market are attractive now? Here is Mead's assessment of four major sectors:

■ Suburban office and light-industrial space. This has been one of the strongest sectors of the market recently, as companies increasingly look for space with locations and amenities that can make their operations more efficient.

■ Multiple-family housing. While apartment complexes continue to win generally good rent increases, occupancy rates are already fairly high, and there is not much room for further improvement, limiting prospects for growth.

■ Shopping centers. Most analysts agree that the United States has been "over-retailed," but well-located properties are still doing well.

■ Downtown office space. City office buildings still suffer high vacancy rates as businesses flock to the suburbs, making this sector look fairly unattractive.

As with any investment decision, finding the right REIT—or REITs—for your portfolio will take some work. But consider this: Real estate ranked as the third-favorite source of wealth among the "400 Richest People in America" surveyed by *Forbes* magazine last year (behind inheritance and oil and gas). So your hard work just might pay off.

NB

Randy Myers is a financial writer in Dover, Pa.

REITs Vs. Stocks

This chart compares the annualized total returns for the National Association of Real Estate Investment Trusts (NAREIT) Total Return and Equity Only indexes with returns for the Standard & Poor's 500-stock index. Figures through June 28.

	Year To Date	One Year	Three Years	Five Years	Ten Years
NAREIT - All*	7.13%	17.60%	9.37%	12.96%	6.85%
NAREIT - Equity Only**	6.82%	16.49%	8.76%	13.83%	9.24%
S&P 500	10.10%	25.93%	17.17%	15.70%	13.78%

* Composed of 203 REITs, including those that invest in mortgages.

**Includes the 169 REITs that invest only in properties, with no investments in mortgages.

SOURCE: NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS

ning of this decade. In addition, real-estate values would be hurt if interest rates should rise dramatically.

Nevertheless, real estate could provide a long-term hedge against losses in other investments if stock or bond prices begin to tumble. This is because real property is viewed as having intrinsic value.

Real-estate investment trusts (or REITs, pronounced "reets" on Wall Street) also pay fairly hefty dividends right now, which would serve as another counterbalance to declining stock prices.

At the end of June, the dividend paid by the average REIT provided a yield of about 7.4 percent, according to the National Association of Real Estate Investment Trusts (NAREIT), a trade group in Washington, D.C. By comparison, the average annual dividend yield on the stocks in the Standard & Poor's 500-stock index at that time was 3.8 percent, and the Treasury's bellwether 30-year bond was yielding about 6.9 percent.

How A REIT Works

A REIT is a corporation or trust that

its beneficial provisions for REITs. Today, more than 200 publicly traded REITs have a market value of \$64.6 billion, up from 62 REITs worth \$7.7 billion in 1985.

Virtually all REITs specialize in a specific sector of the real-estate market. Some invest only in apartment buildings, others in office and light-industrial space, and still others in shopping centers or downtown office buildings. A handful merely invest in mortgages without actually owning any property.

Historically, REIT shares haven't matched the returns available in the broader stock market, but then neither have most other types of investments, including bonds.

Through the first six months of this year, the average REIT produced a total return of 7.1 percent, compared with 10.1 percent for the S&P 500. Over the past 10 years, REITs have lagged the S&P by a wider margin, 6.9 percent vs. 13.8 percent. But they have performed quite well over the past 20 years, with a total return of 13.2 percent, compared with 14.2 percent for the S&P 500.

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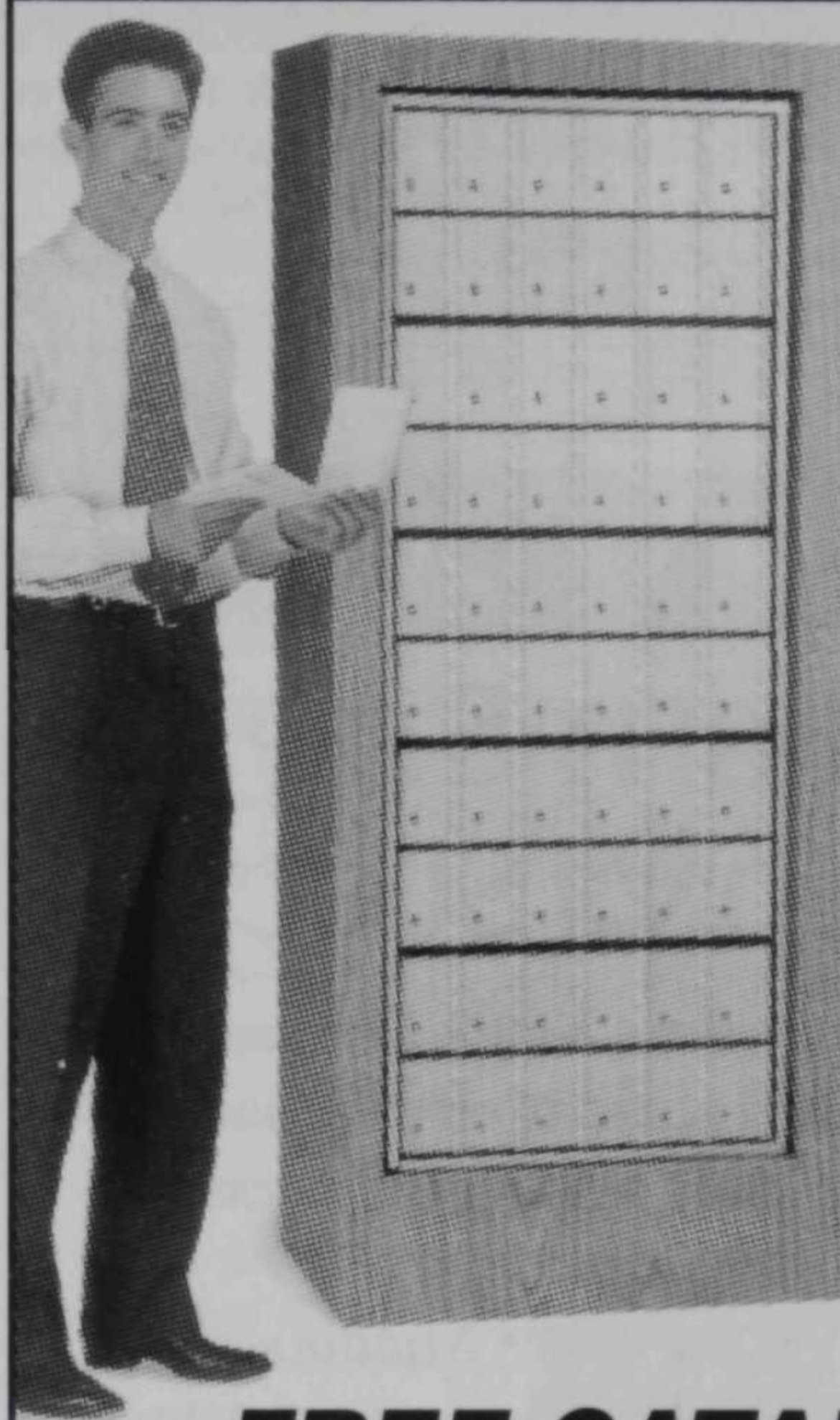


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Free-Spirited Enterprise

By Michael Barrier

Smiling For The Camera

We like small businesses that have darted successfully through narrow openings in markets that aren't especially hospitable to little enterprises. We ran across one of them recently on a visit to Los Angeles. The 15-employee company is called MVP Home Entertainment, and it's based in suburban Canoga Park, in the San Fernando Valley. It sells videocassettes.

MVP's breakthrough cassette is called "Babymugs!" It consists of 27 minutes of dozens of cute babies grinning at the video camera, one after another, with appropriately sweet-tempered music on the soundtrack. MVP has sold more than a quarter-million copies of the \$9.95 tape.

British-born Philip T. Knowles has been the half-owner and CEO of MVP for a little over three years. "Babymugs!" was not his idea. As his assistant, Meredith Emmanuel, says, "We don't actually produce anything."

MVP is in the business of licensing and distributing tapes that other people put together. "Babymugs!" was the brainchild of two young mothers in the San Francisco area. They sold about 1,000 copies on their own before MVP released it late last year.

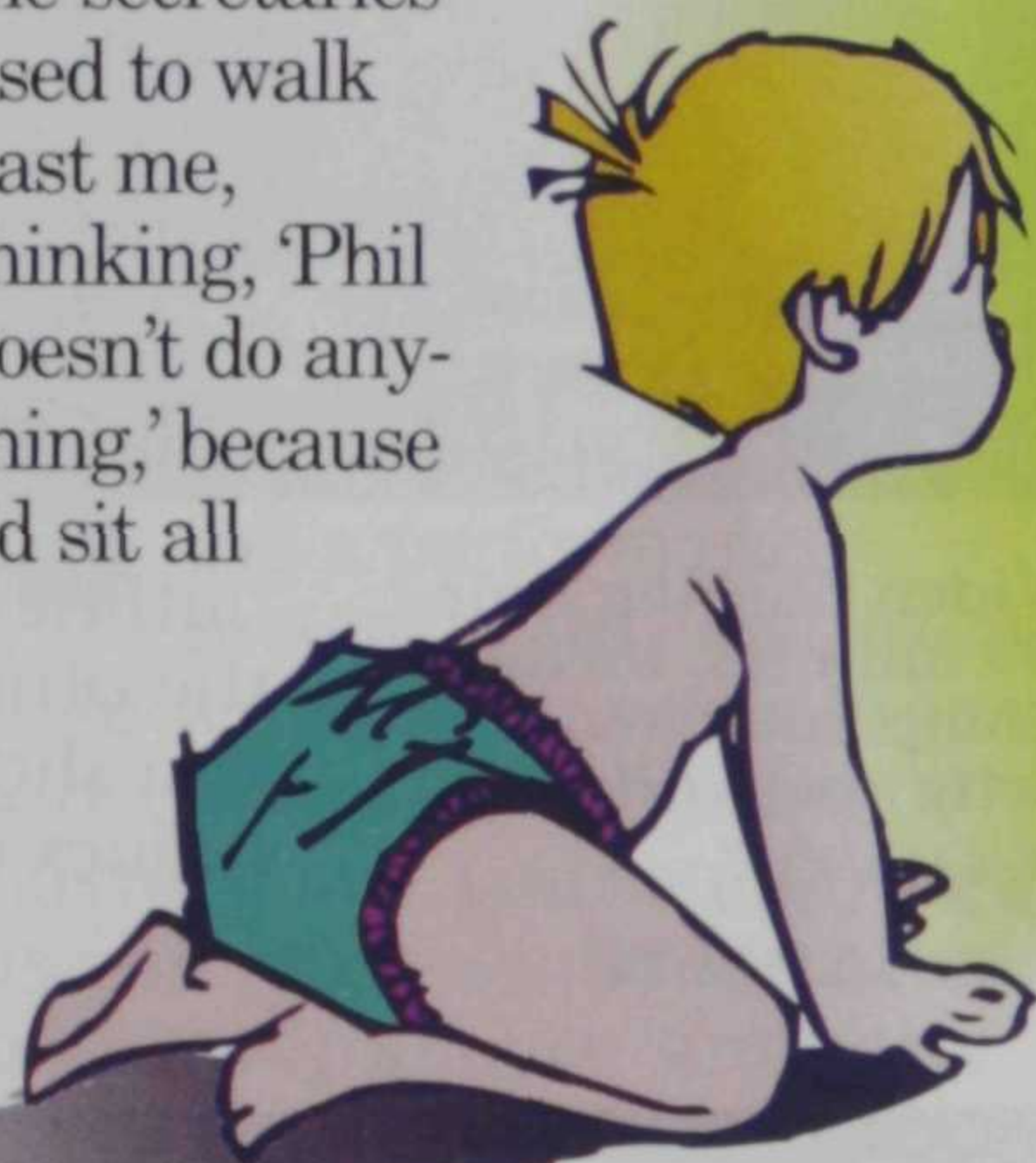
Knowles, who is from Liverpool, England, moved to Los Angeles in 1989. "I used to come to L.A. on vacation every year," he says. "I thought that as soon as I sold all my businesses, I wouldn't mind retiring in America."

He owned an assortment of businesses in England—hair-dressing salons, rental properties, a nursing home. They were

linked only by Knowles' keen interest in effective marketing of whatever product or service he happened to be offering at the time. "My real strength has always been in selling," he says.

When an attractive offer came along, he says, he wound up selling his businesses sooner than he had expected—and for less money than he needed to retire—"so I had to come here and work. I'm married and have a couple of kids, and my wife and I decided that America was where we were going to go." In California, he tried his hand at salons again for a while, but by 1993 he was in the business of putting up temporary buildings.

"When I was in construction here," Knowles says, "all the secretaries used to walk past me, thinking, 'Phil doesn't do anything,' because I'd sit all



day reading newspapers." He was, however, looking for opportunities—an article might reveal that a city needed temporary housing for the homeless, for example.

Knowles went into the video business, he says, because an associate had bought a line of about 20 instructional videos—on how to play musical instruments—at a bankruptcy sale. The associate offered Knowles a 50-50 deal: He would put up the video titles, Knowles would put up himself, and together they would start a company, then called Music Video Products.

"The trouble with the video field," Knowles says, "is that it's

very crowded"—but not, as it turned out, with companies that were selling videos on how to play the guitar, say, or the piano. "If I'd had any other type of product," he says, "the major accounts wouldn't have looked at me, because everybody has those other things."

Videocassettes, he suggests, are like breakfast cereal: Success is largely a matter of winning shelf space, and that, in turn, is a matter of making the product and the margins attractive. A constant flow of new titles is also very important, he says, "because the mass

merchants want to know



that if they go heavy on something and it doesn't work, they can swap it out when you come in with the next one." He thus expanded the line to embrace instructional tapes on snowboarding and in-line skating.

Because the instructional tapes did well, Knowles says, "my relationship strengthened with a couple of key accounts very quickly, to the extent that I was able to say to the buyers, 'What else does really well for you?' They would make suggestions, and I would seek out product."

What made "Babymugs!" such a neat fit with Knowles' strategy was that children's videos already accounted for a huge

segment of the sell-through market—videos sold to consumers rather than to video stores for rentals. With "Babymugs!" the mass merchants could extend their sales reach down past toddlers, all the way to infants. Three- or 4-year-olds park themselves in front of the tube and watch "The Lion King" 40 or 50 times; but what 6-month-olds like to watch, it turns out, are other 6-month-olds.

In July, MVP released three videos based on the Fox TV series "Cops." For that series, camera crews ride with real police officers and tape their pursuit of bad guys, so the videos are full of wild car chases, salty language, and bruising encounters with the law.

"A tremendous amount of merchandising" is accompanying the release of the "Cops" videos, Knowles says, extending to baseball caps, coffee mugs, and T-shirts. In addition, he says, "we have some very cute packages we've put together, with Christmas in mind, that look sort of like miniature jail cells." He expects to sell a million of the "Cops" tapes by the end of the year.

MVP's rapid growth has "not been without its cash-flow hazards," Knowles acknowledges, but that growth has been entirely self-financed, so MVP has not had a bank breathing down its neck. It has also been cautious about shipping too many tapes to its customers, who may, after all, order lots of tapes secure in the knowledge that they can return what they don't sell.

"If we shipped every order that we were capable of shipping," Knowles says, "we'd be throwing a lot of boomerangs; and we've tended not to do that, because we have our own bills to pay."

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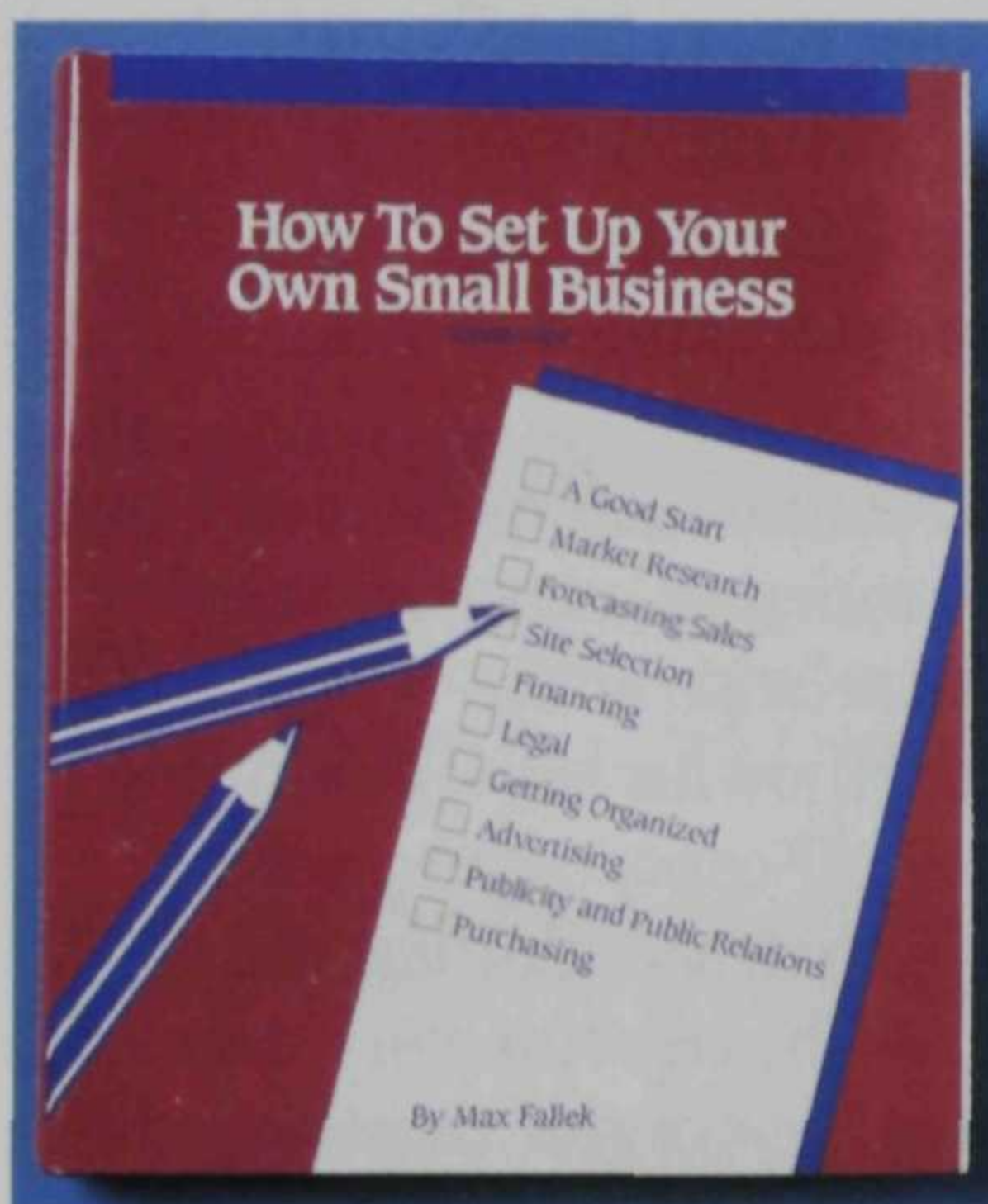
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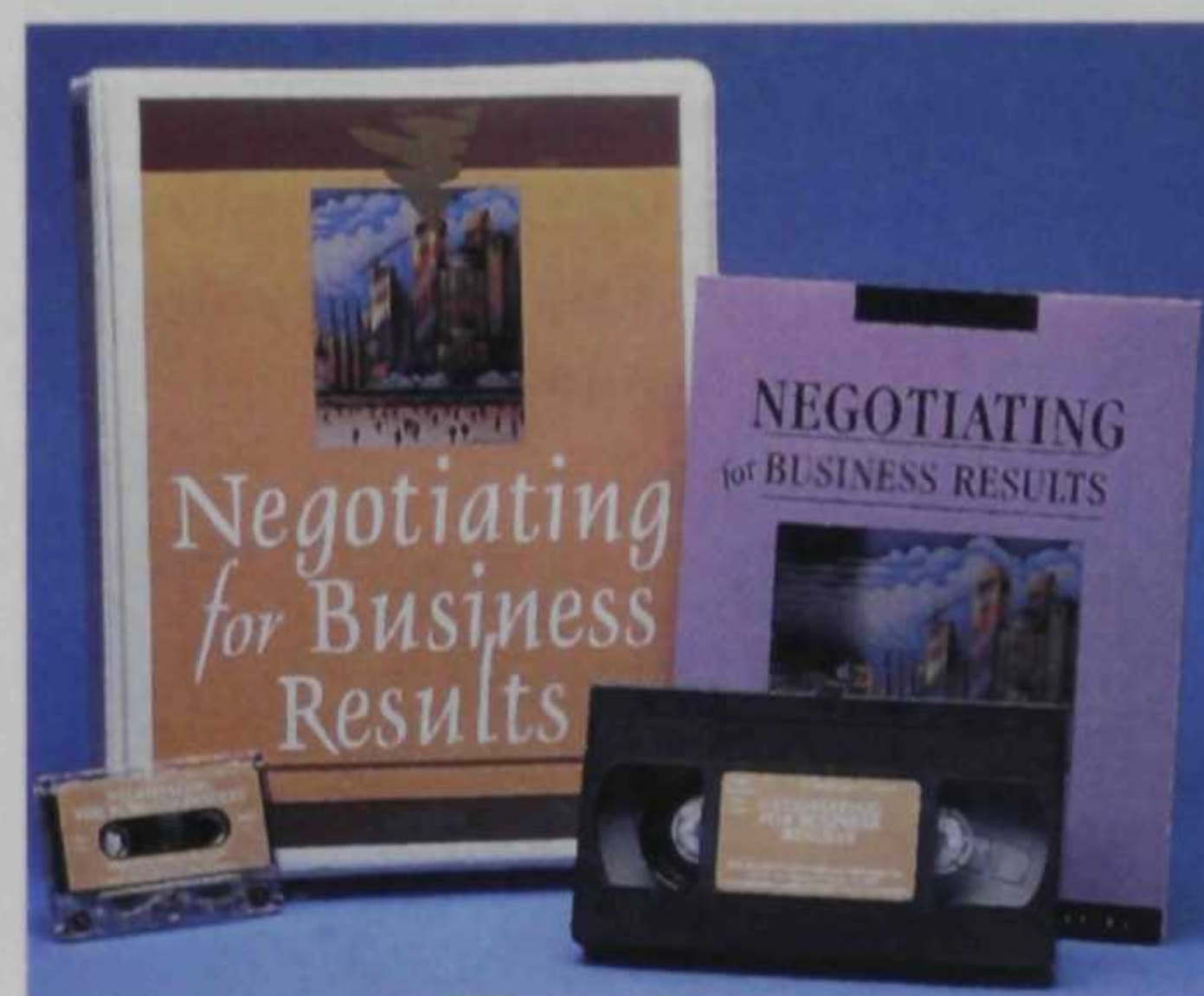
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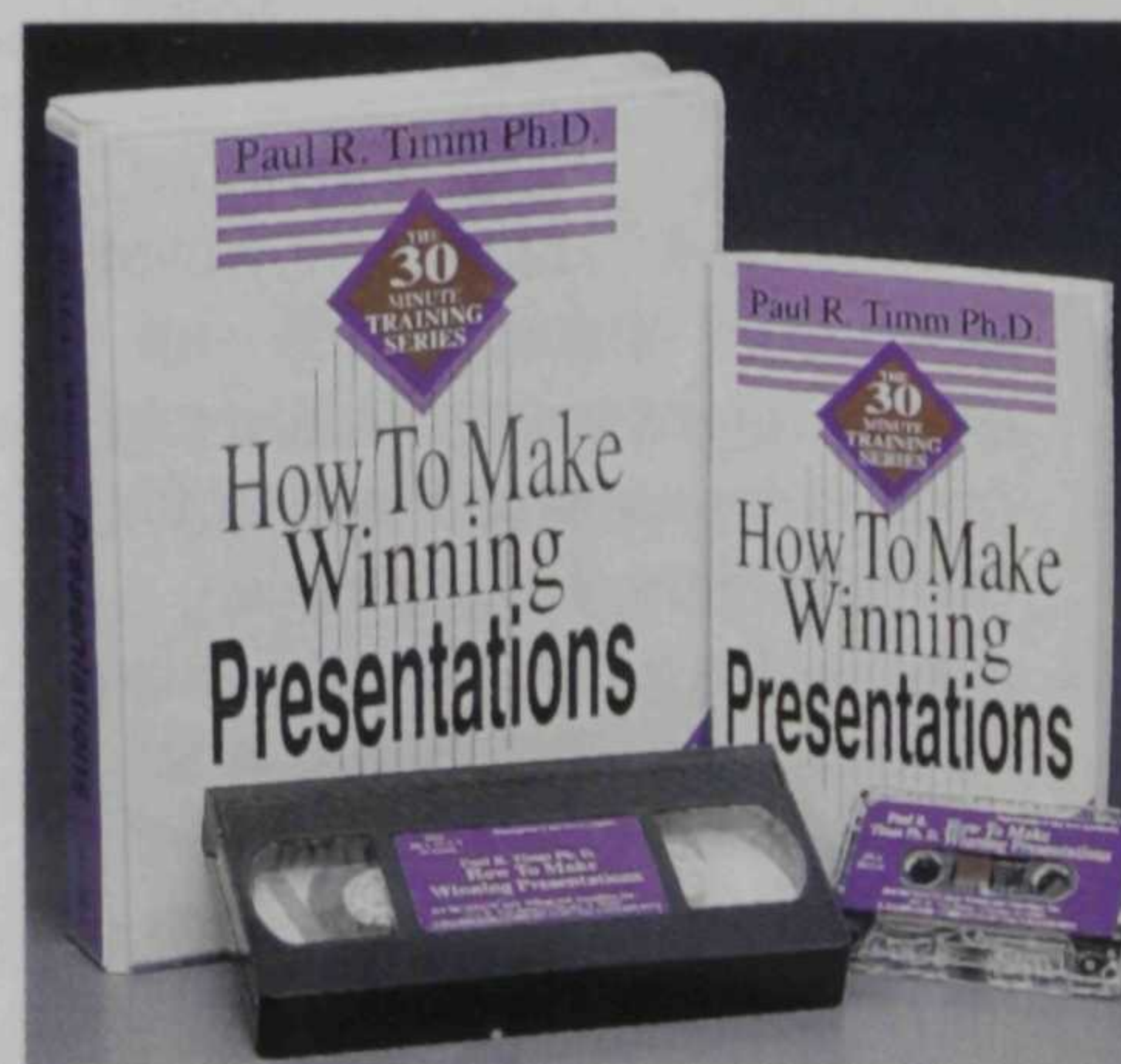


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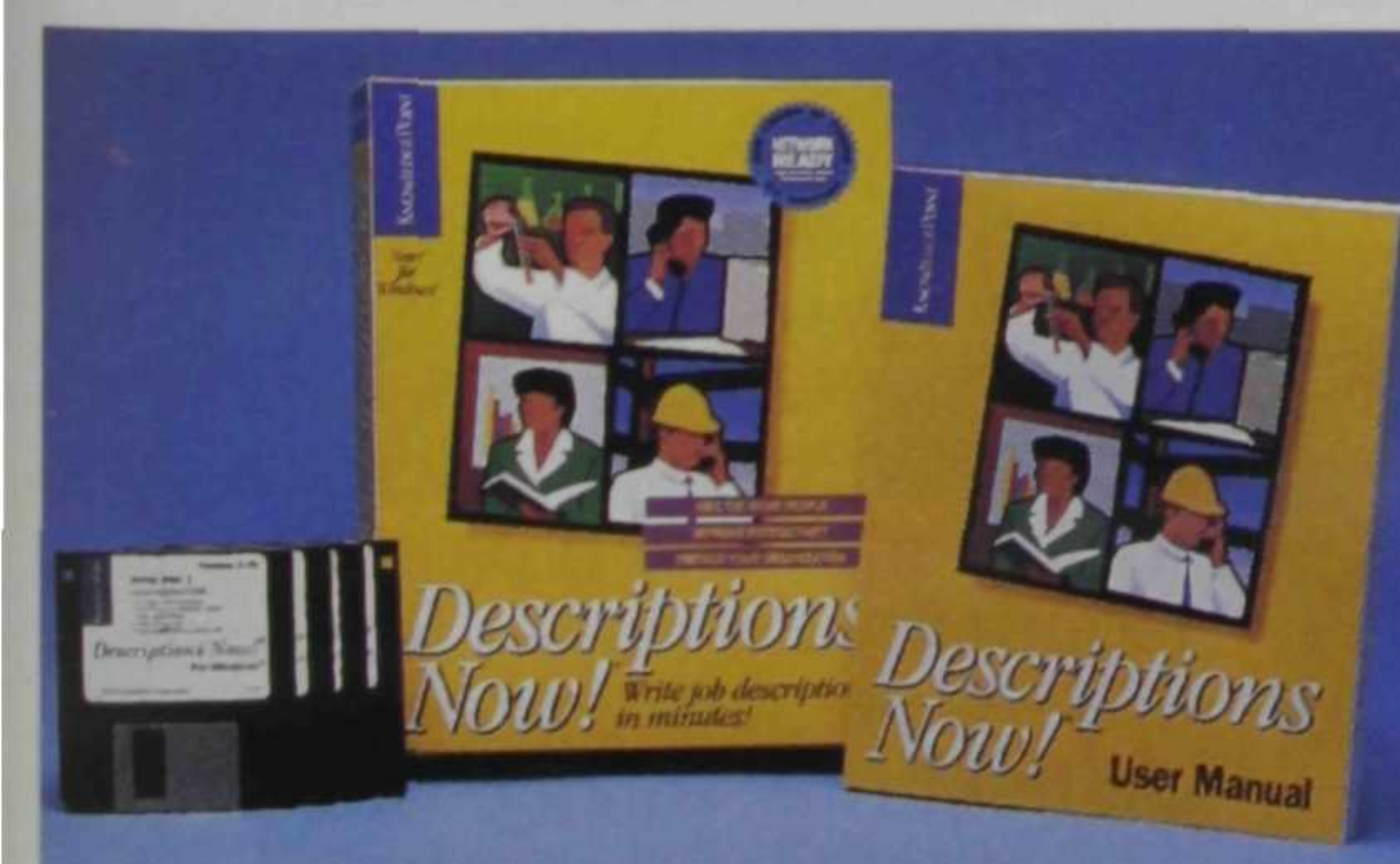
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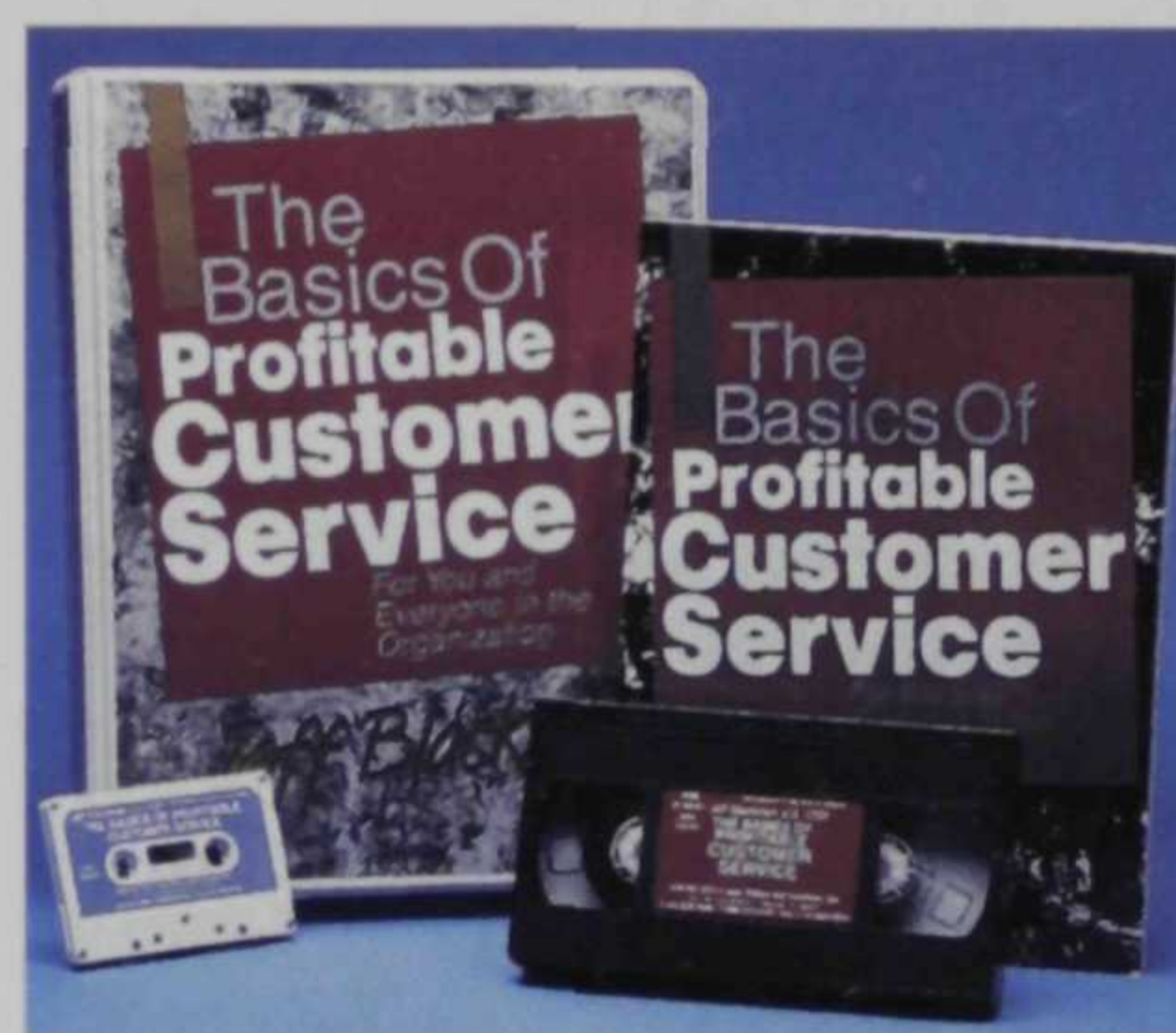
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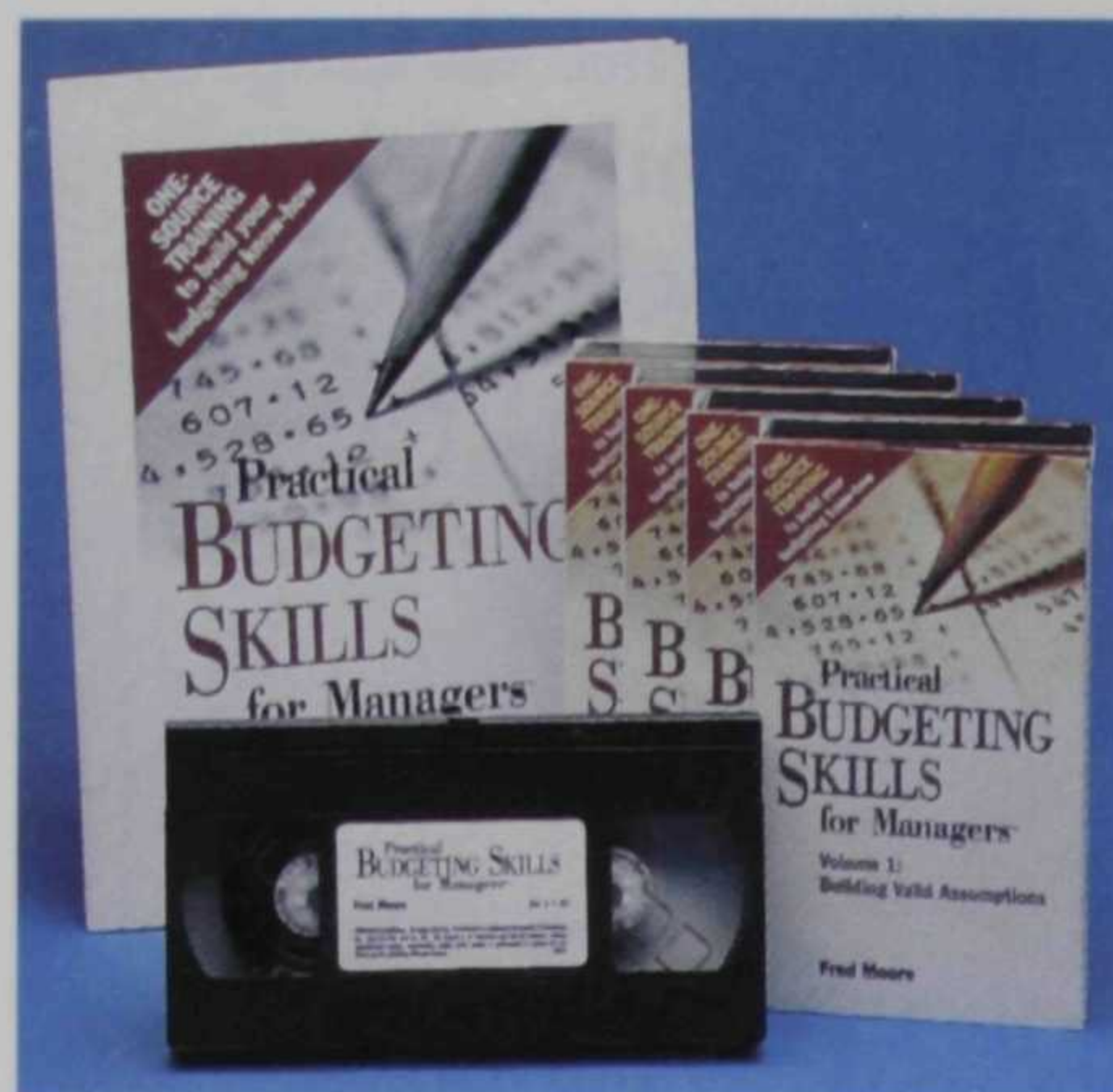
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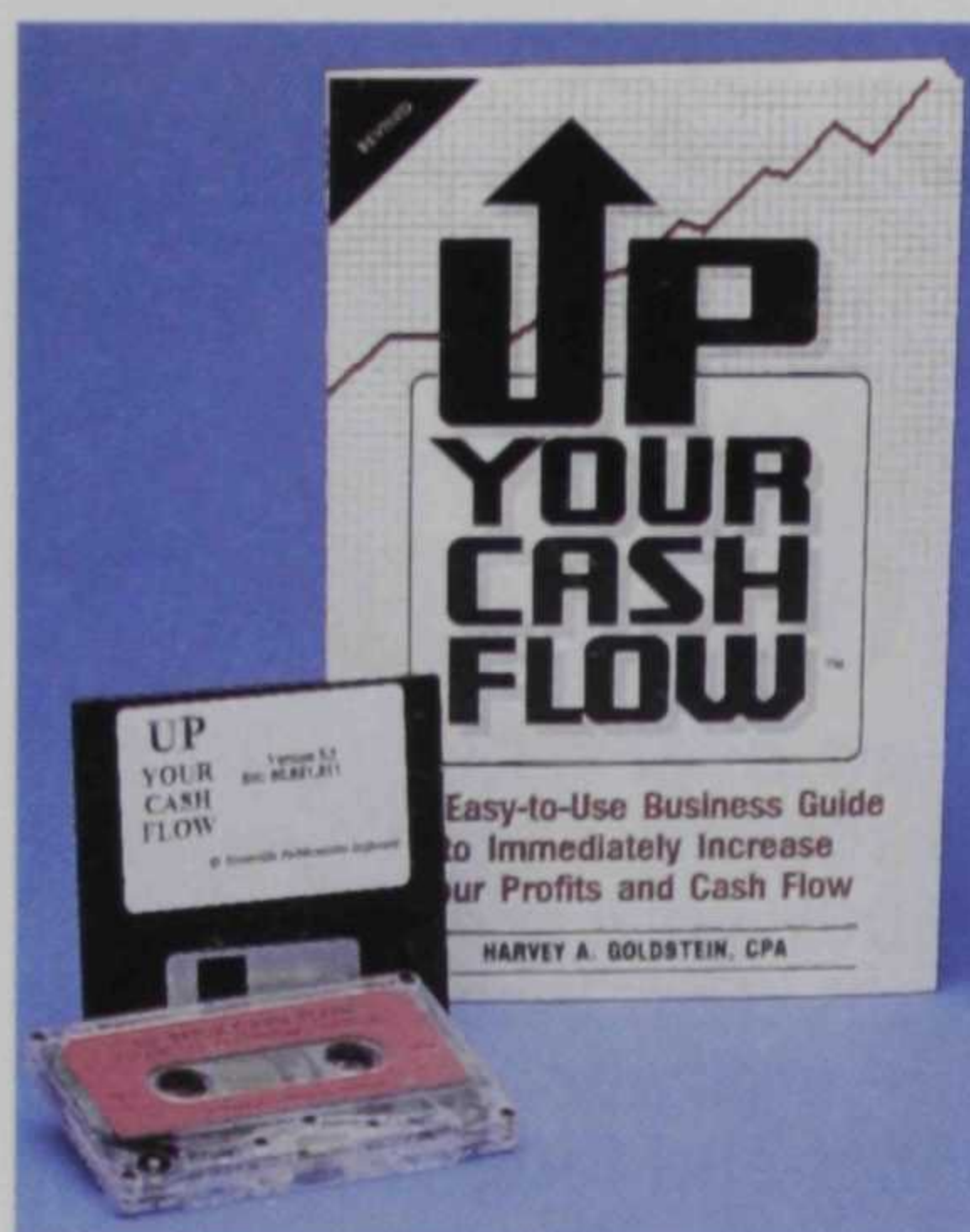
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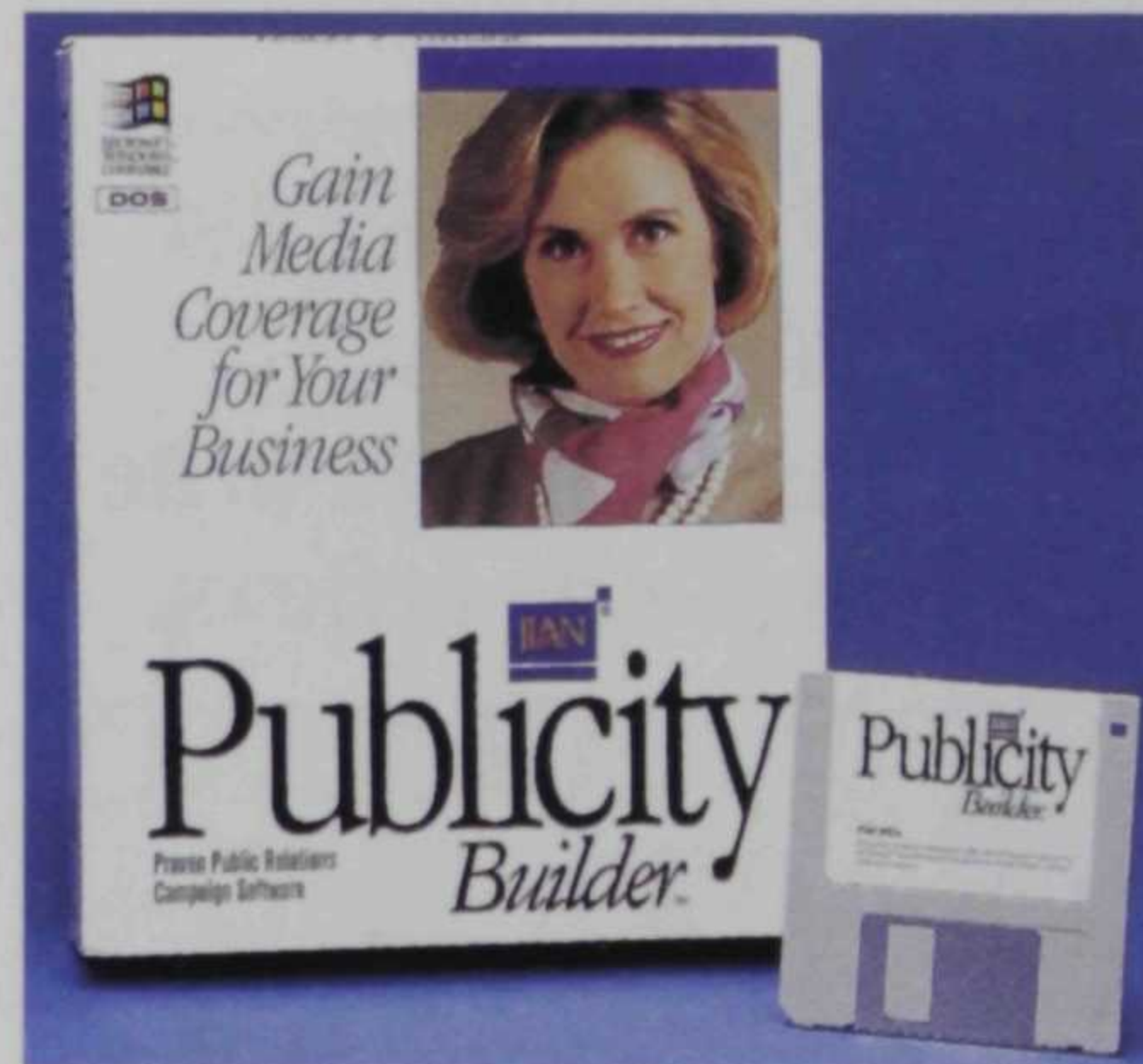
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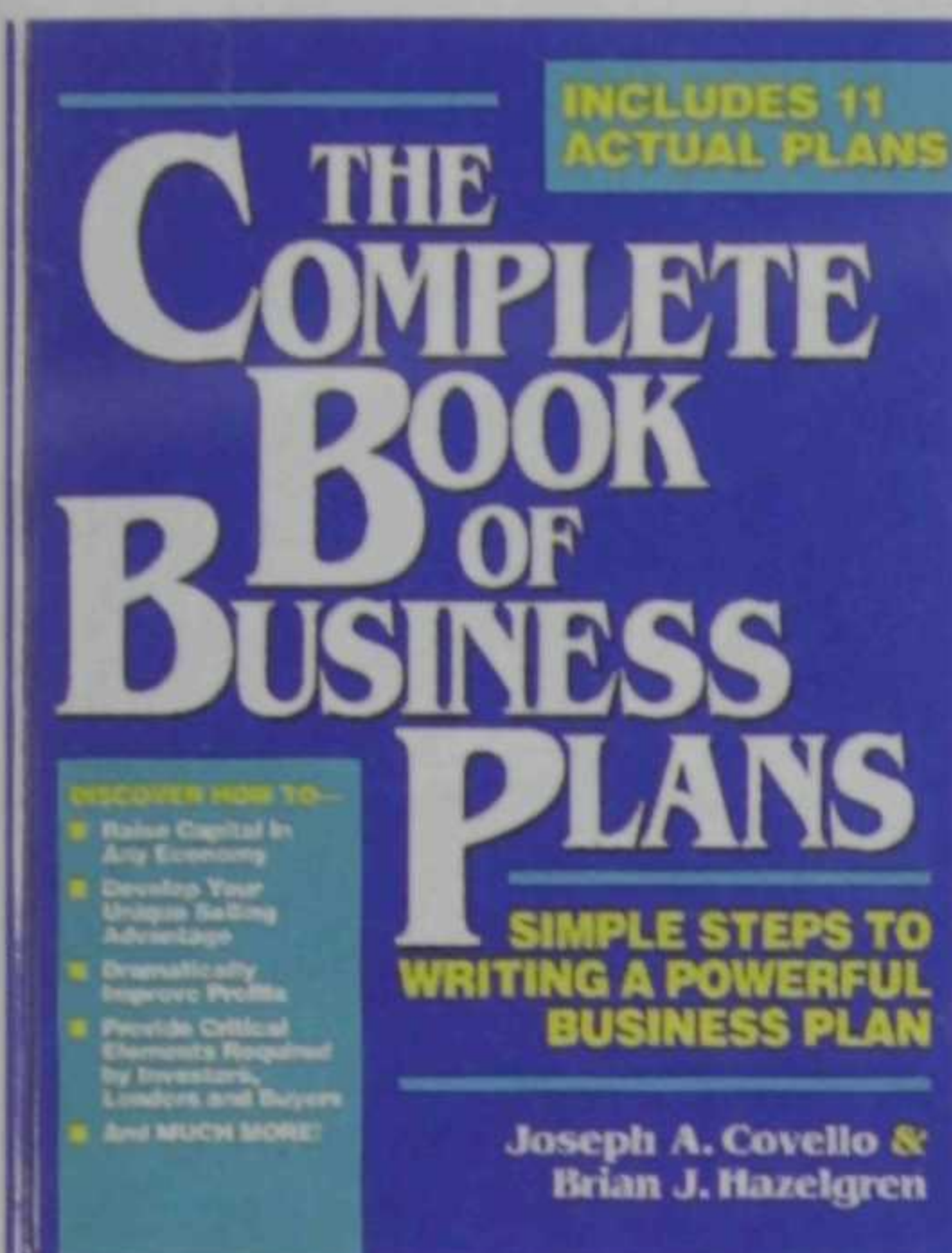
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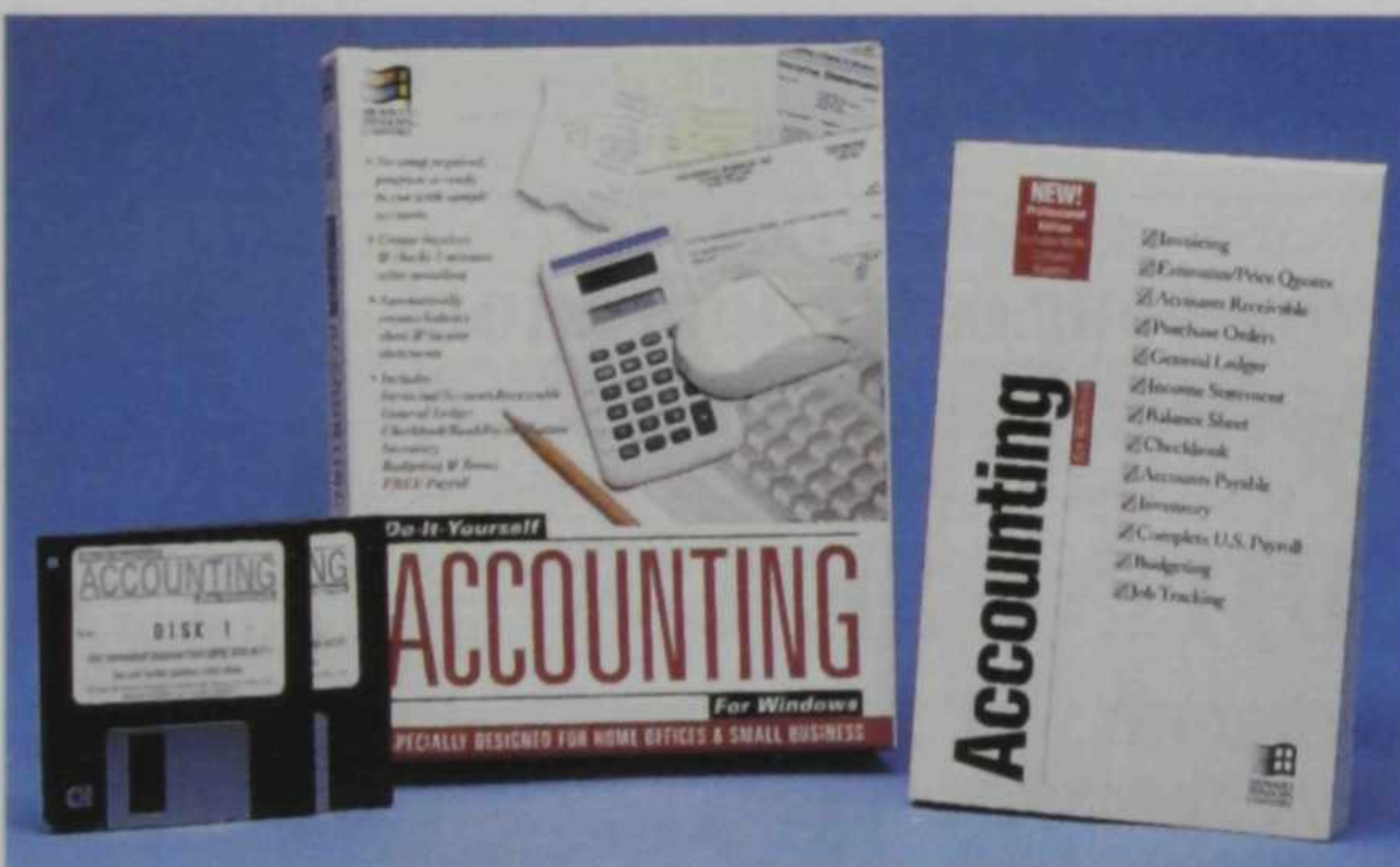
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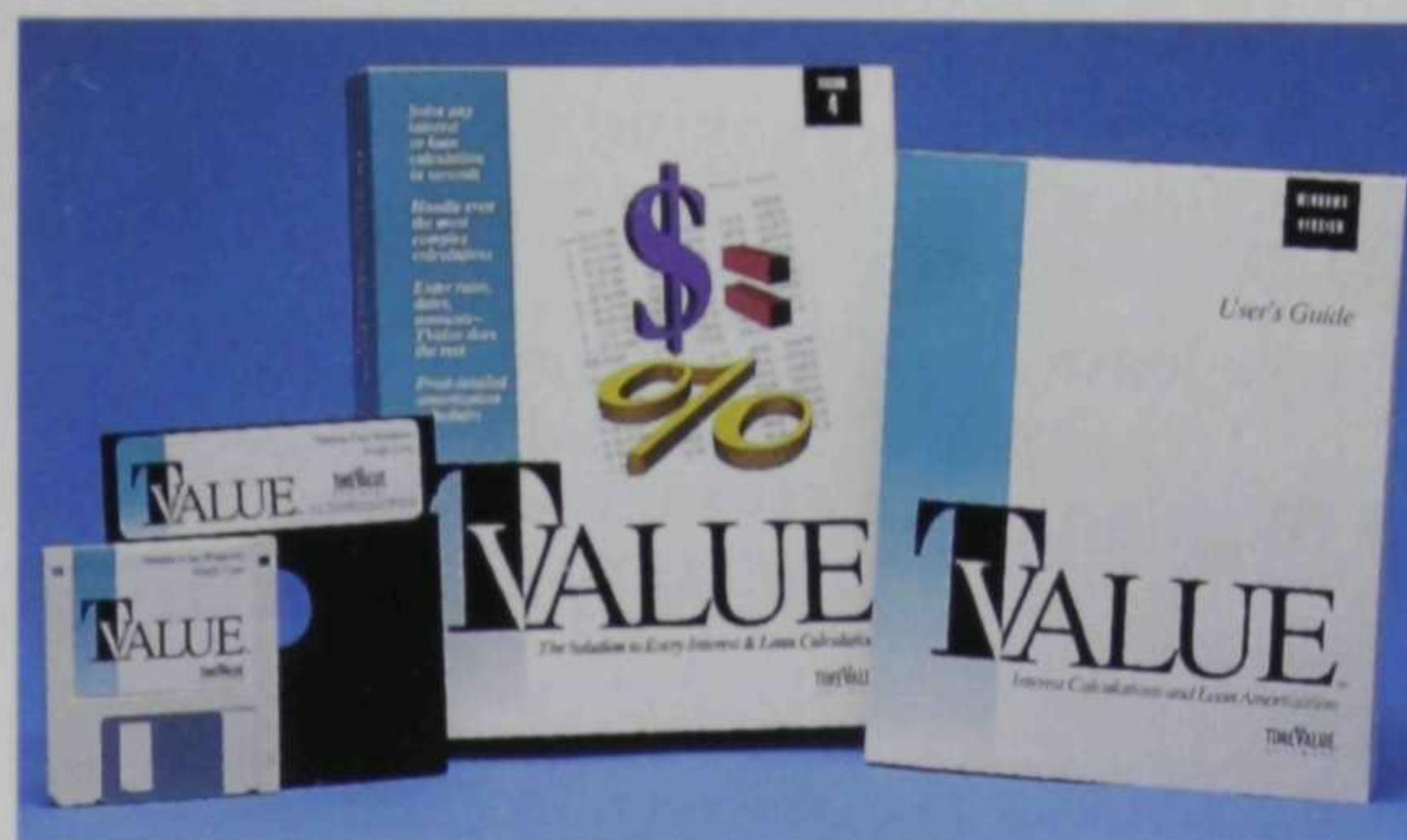
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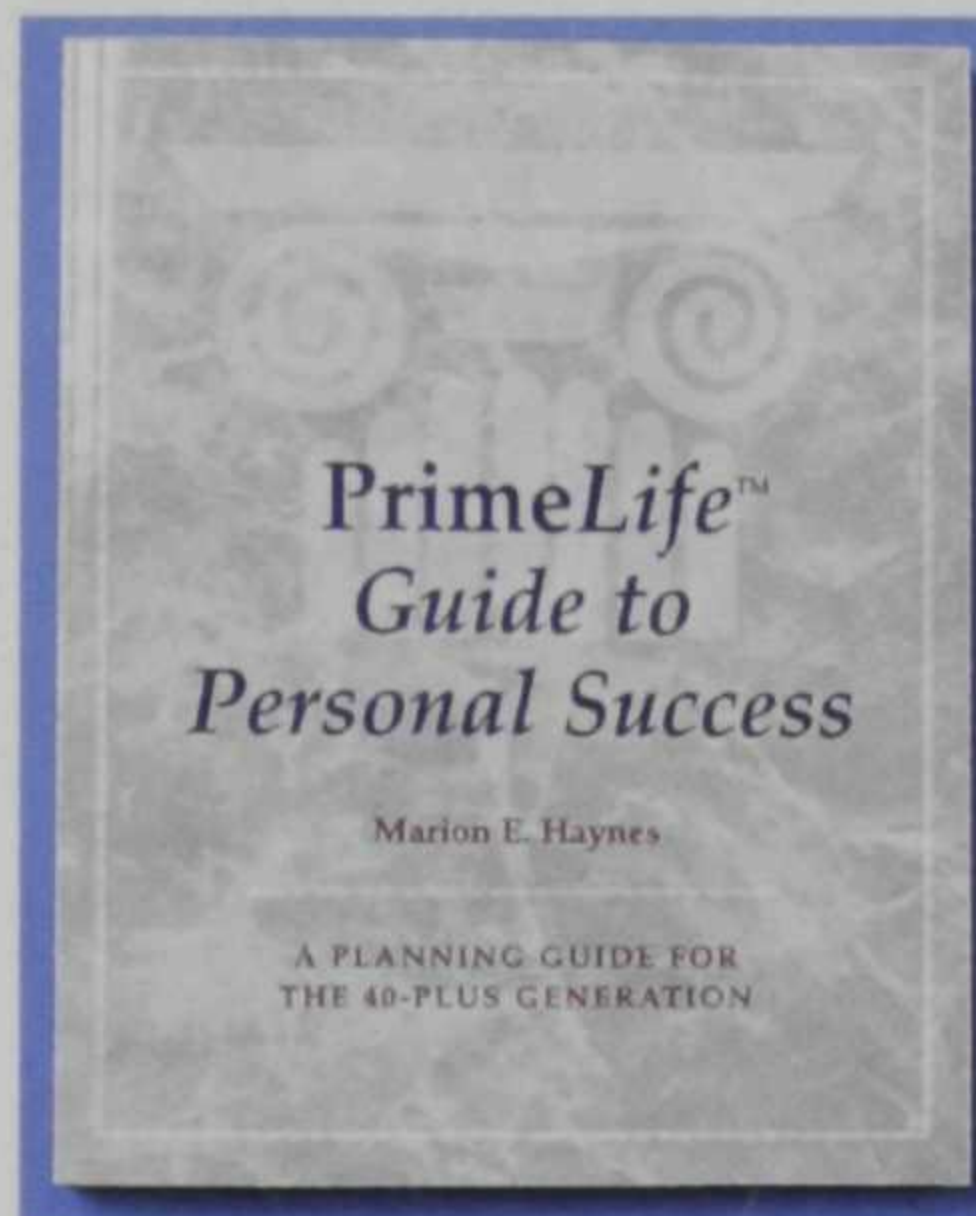
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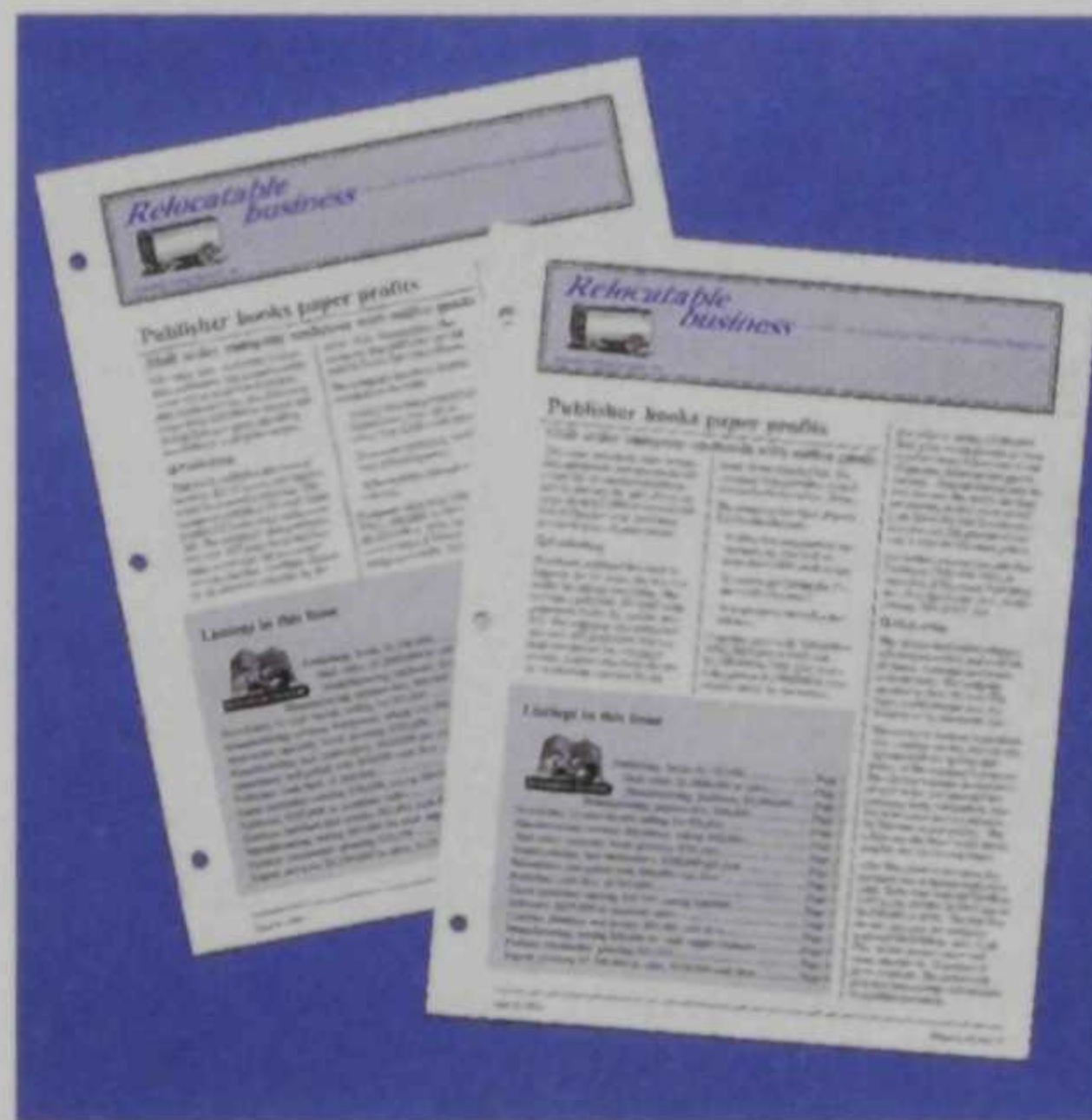
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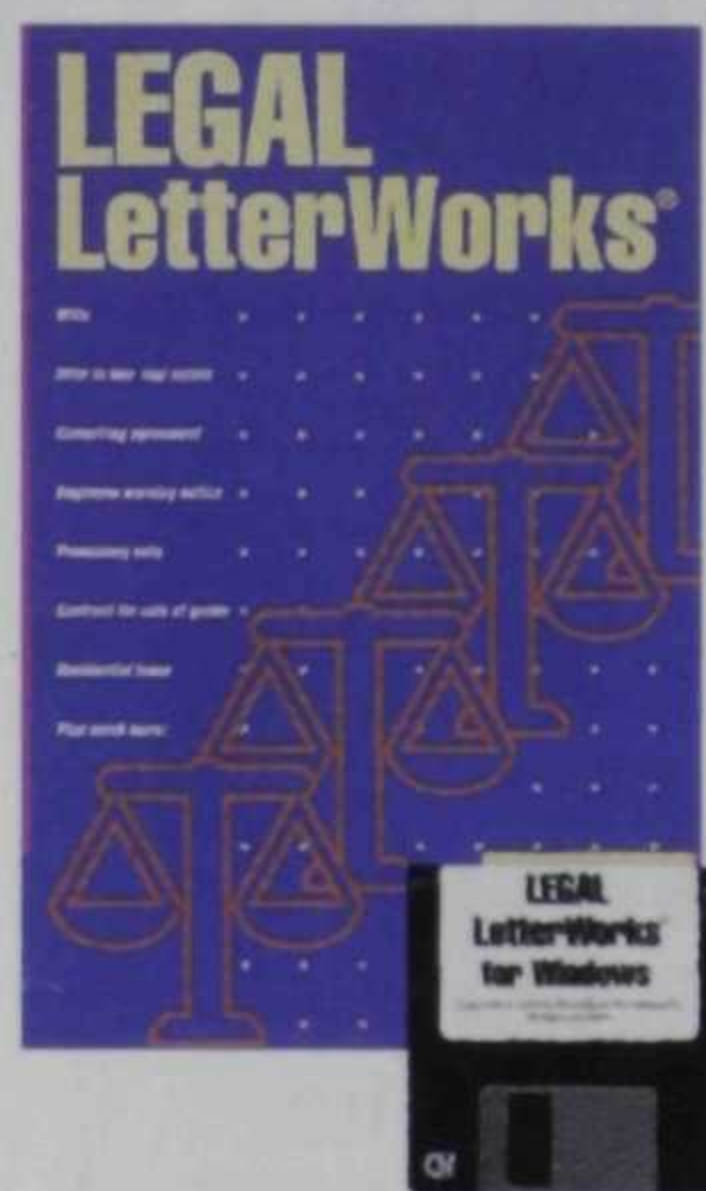
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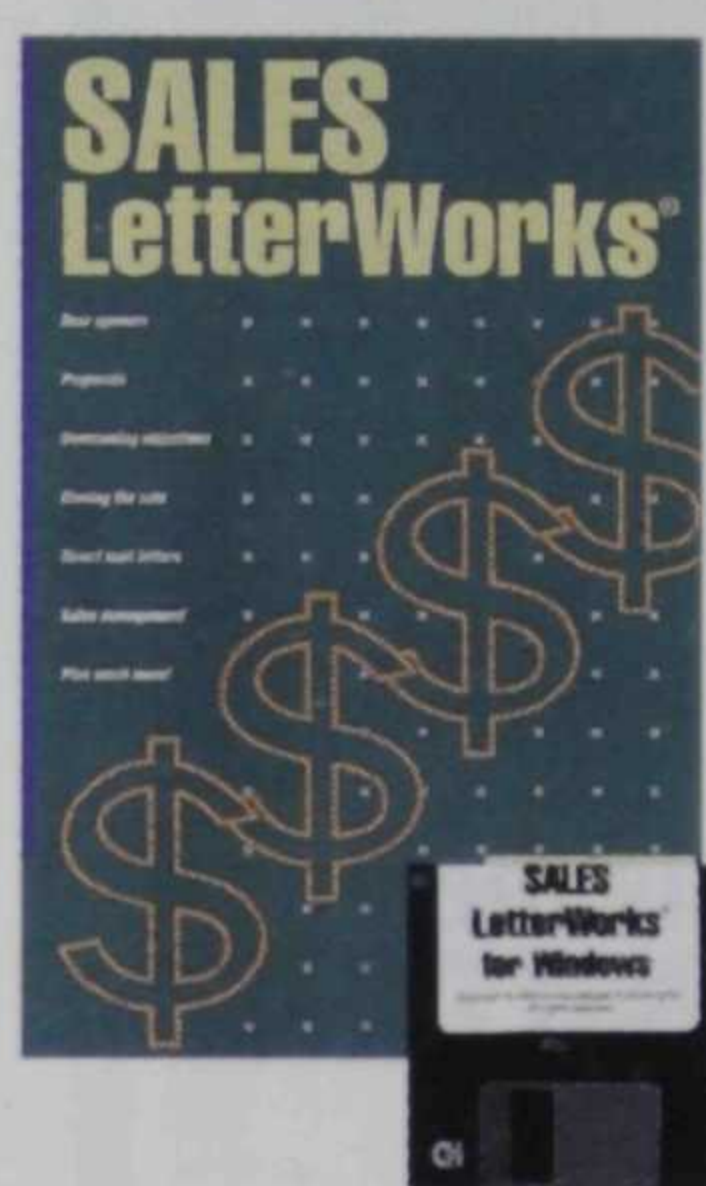
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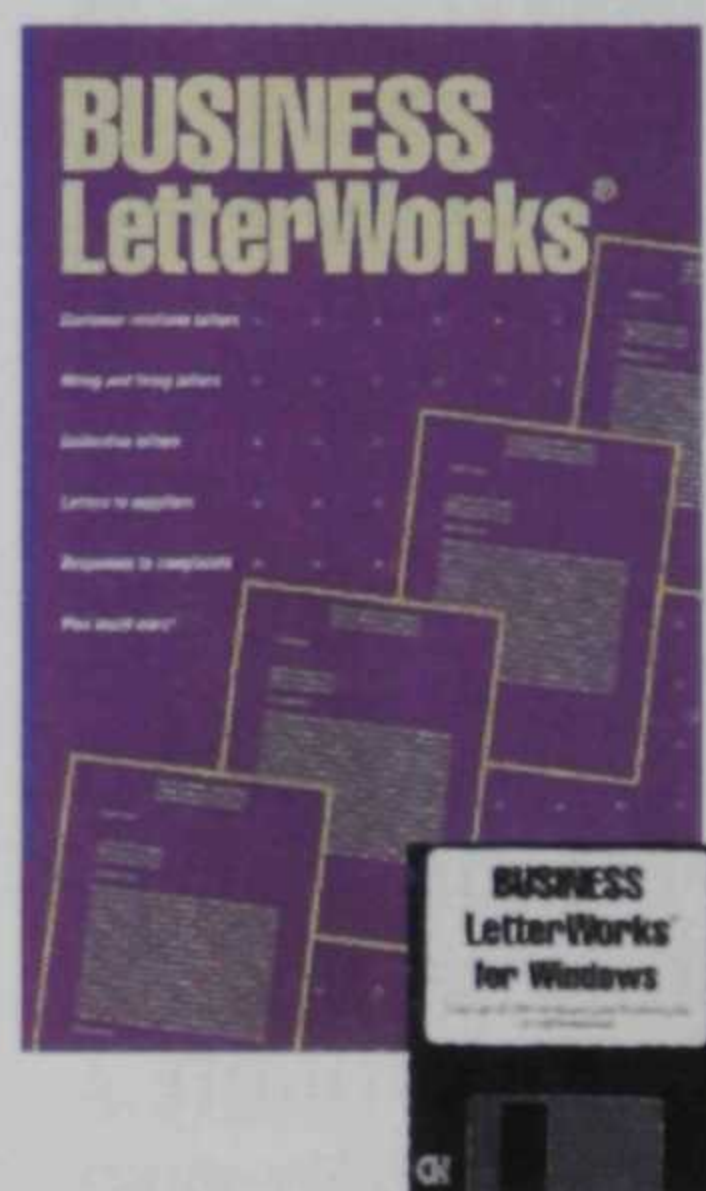
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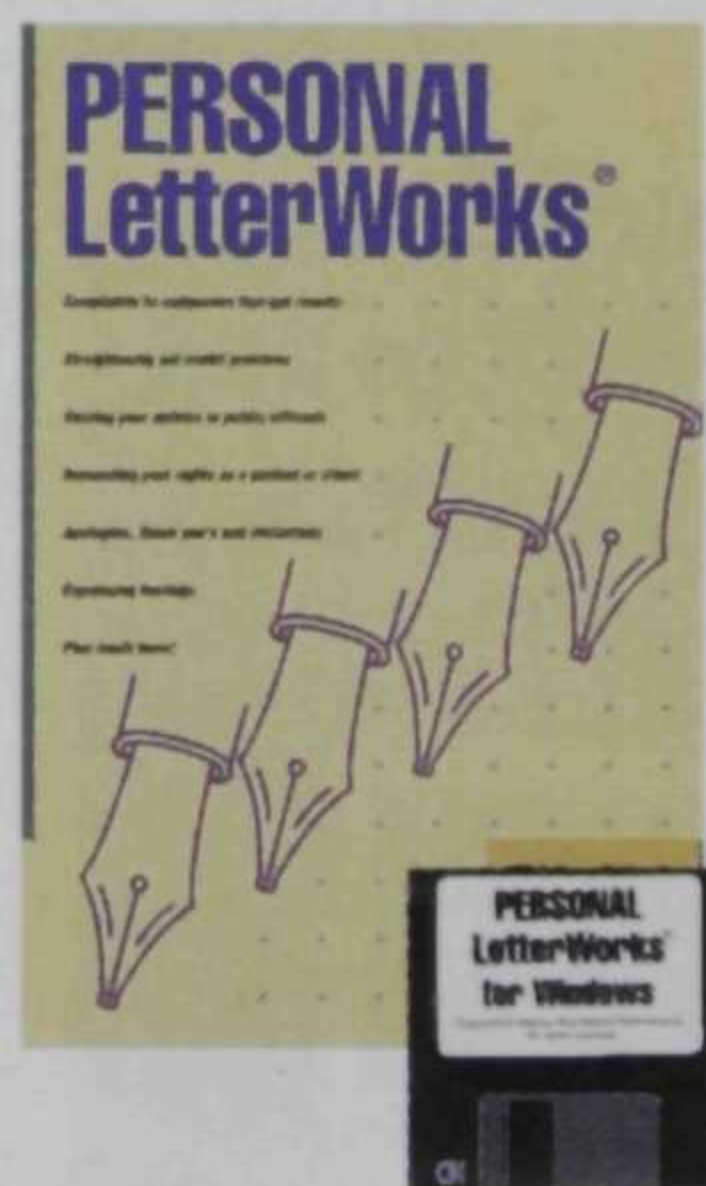
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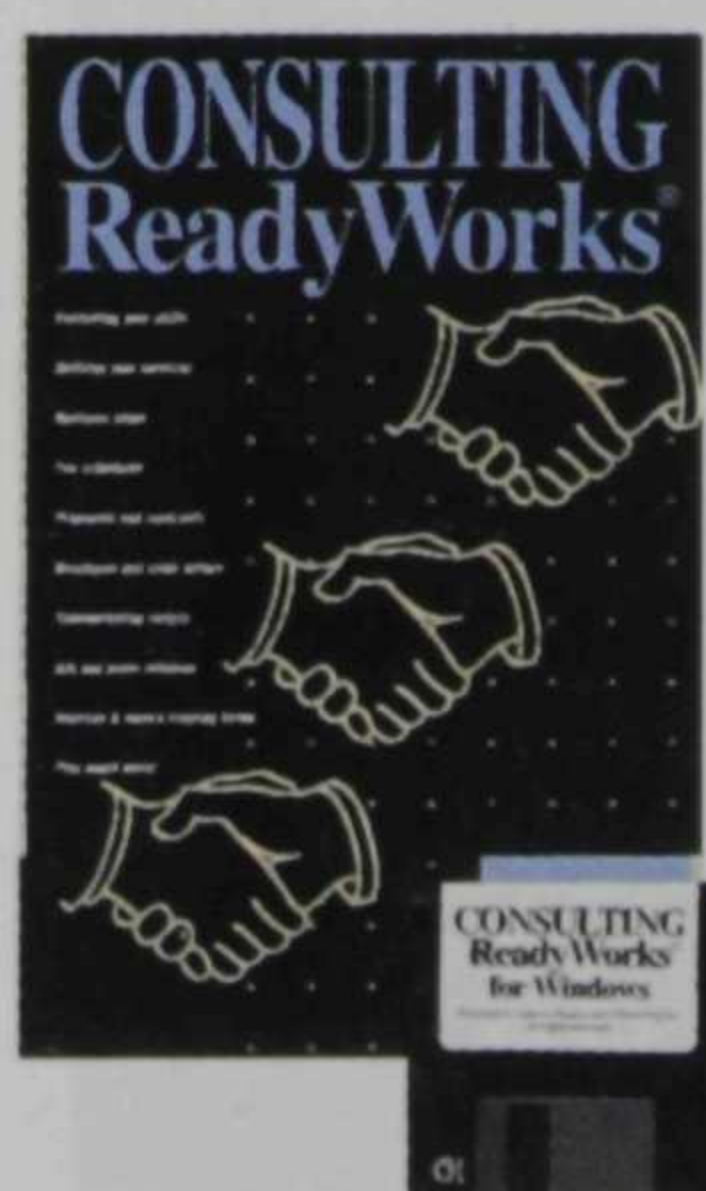
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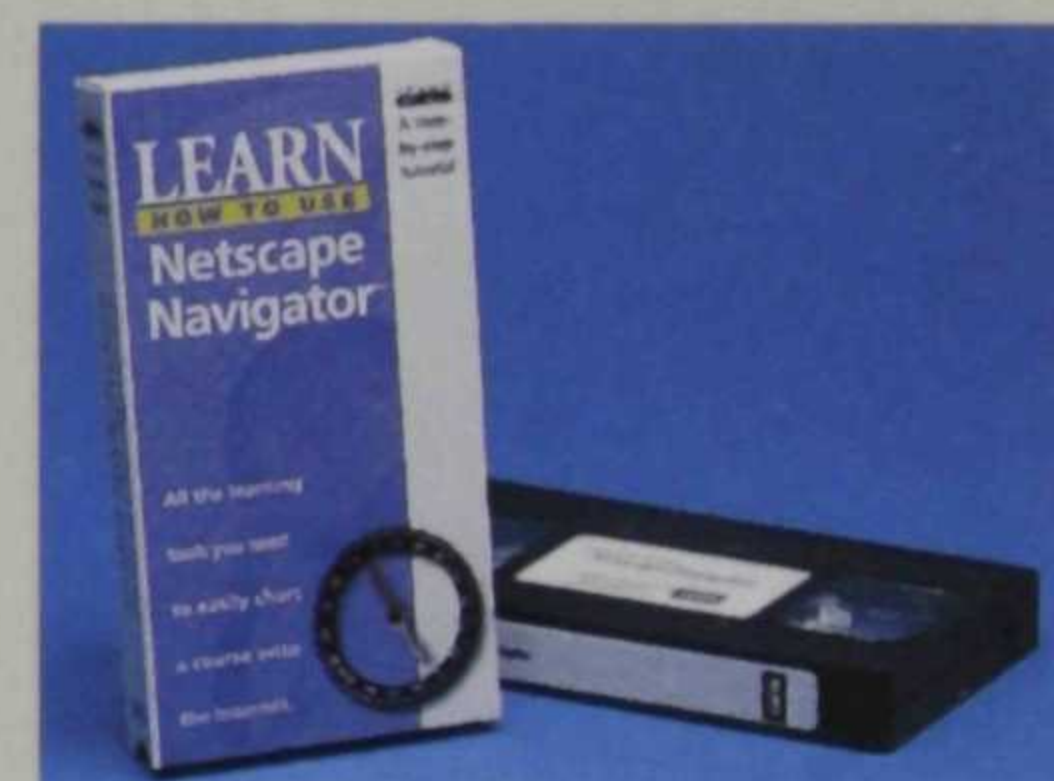
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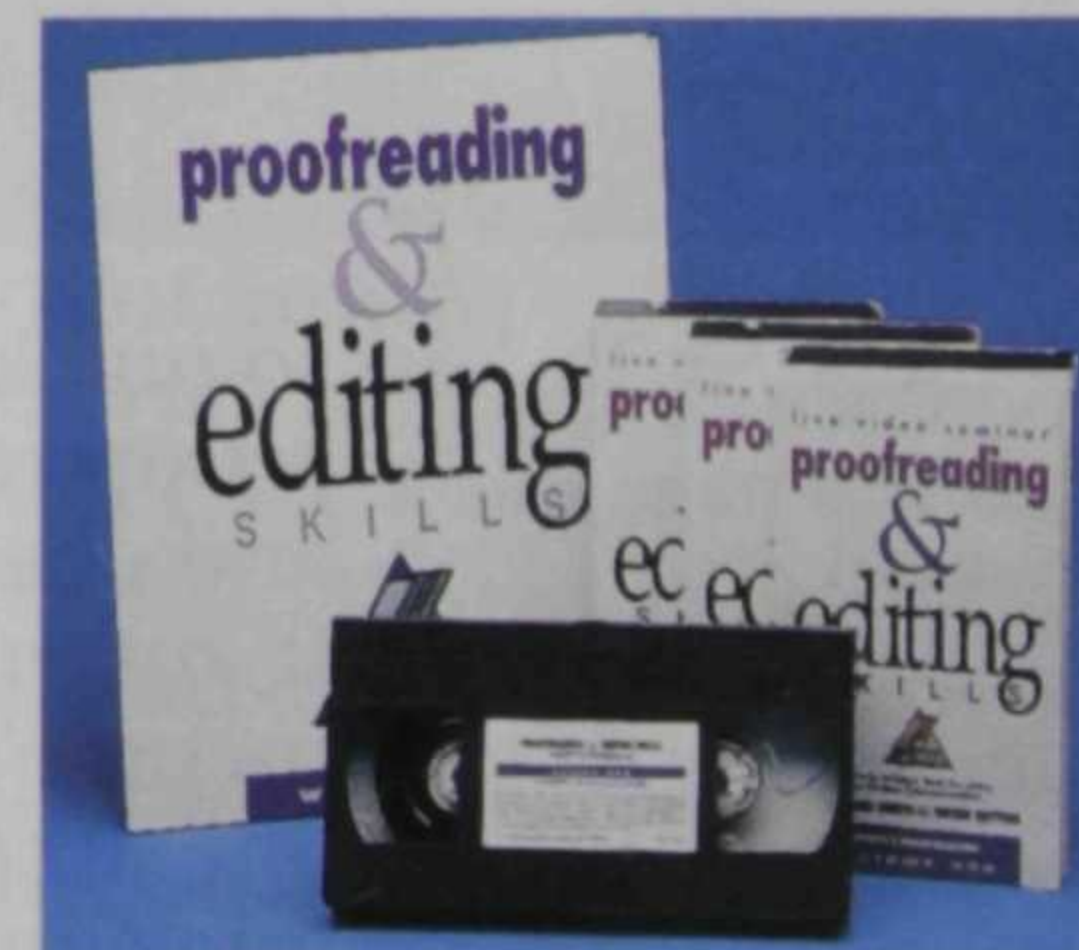
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	Personal LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$79.95	\$6.00	
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On Telecommunications

Background: In light of the recently enacted Telecommunications Act of 1996, which allows communications companies in different lines of business to compete with one another, these questions ask about your involvement with various technologies.

Results of this poll will be published in the November *Nation's Business* and forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1

Which technologies do you currently use in your business? (Note all that apply.)

1. Cellular phone
2. E-mail
3. Toll-free number for customer support
4. On-line services or the Internet
5. Videoconferencing

2

Which technologies do you plan to add in the next 12 months? (Note all that apply.)

1. Cellular phone
2. E-mail
3. Toll-free number for customer service
4. On-line services or the Internet
5. Videoconferencing

3

What usually is your main reason for adopting a new technology?

1. To provide new services
2. To reduce costs
3. To increase employees' productivity
4. To improve service to customers

4

What usually is the primary factor that dissuades you from adopting a new technology?

1. Complexity
2. Cost
3. Fear of obsolescence
4. Privacy and security concerns
5. Need for more information

5

Which of the following services or products do you believe can provide adequate privacy protection and information security? (Note all that apply.)

1. The public telephone network
2. On-line services
3. The Internet
4. Private company networks
5. Encryption software

6

Are new laws needed to protect individual privacy and provide security of information transmitted electronically?

1. Yes
2. No

7

Are new laws needed to protect copyrighted material and other intellectual property transmitted electronically?

1. Yes
2. No

***Send Your Response
Today!***

POLL RESULTS

Readers' Views On The President

President Clinton is no friend of small business, according to the overwhelming majority of readers responding to a *Nation's Business* poll.

Nine out of 10 respondents to the Where I Stand survey in the July issue said they think the president has not been sufficiently committed to issues important to small companies.

Respondents also said that the administration has not made it easier for small firms to comply with federal rules and regulations, even though the president has ordered agencies to use new procedures to do so. (See "Readers' Views On Regulations," June.)

Also, most said they think the administration's tax policies have not helped small

companies. What tax relief small businesses have received came in the form of a number of minor changes to the tax code that were included in the minimum-wage legislation passed by Congress in early August. Those changes offset the costs of higher wages for employees.

According to last year's White House Conference on Small Business, the major complaints of small firms about the federal government focus on tax issues, such as worker classification and various deductions, and flexibility in complying with regulations.

Finally, nine out of 10 respondents said they do not believe a second Clinton term would be helpful to their businesses.

Here are the survey's complete results:

THE PRESIDENT

Are you satisfied with President Clinton's level of commitment to issues important to you and your business?

Yes	7%
No	92
Undecided	1

Have the Clinton administration's policies in general been friendly to small business?

Yes	7%
No	90
Undecided	3

Has the Clinton administration made it easier for your business to comply with federal rules?

Yes	5%
No	89
Undecided	6

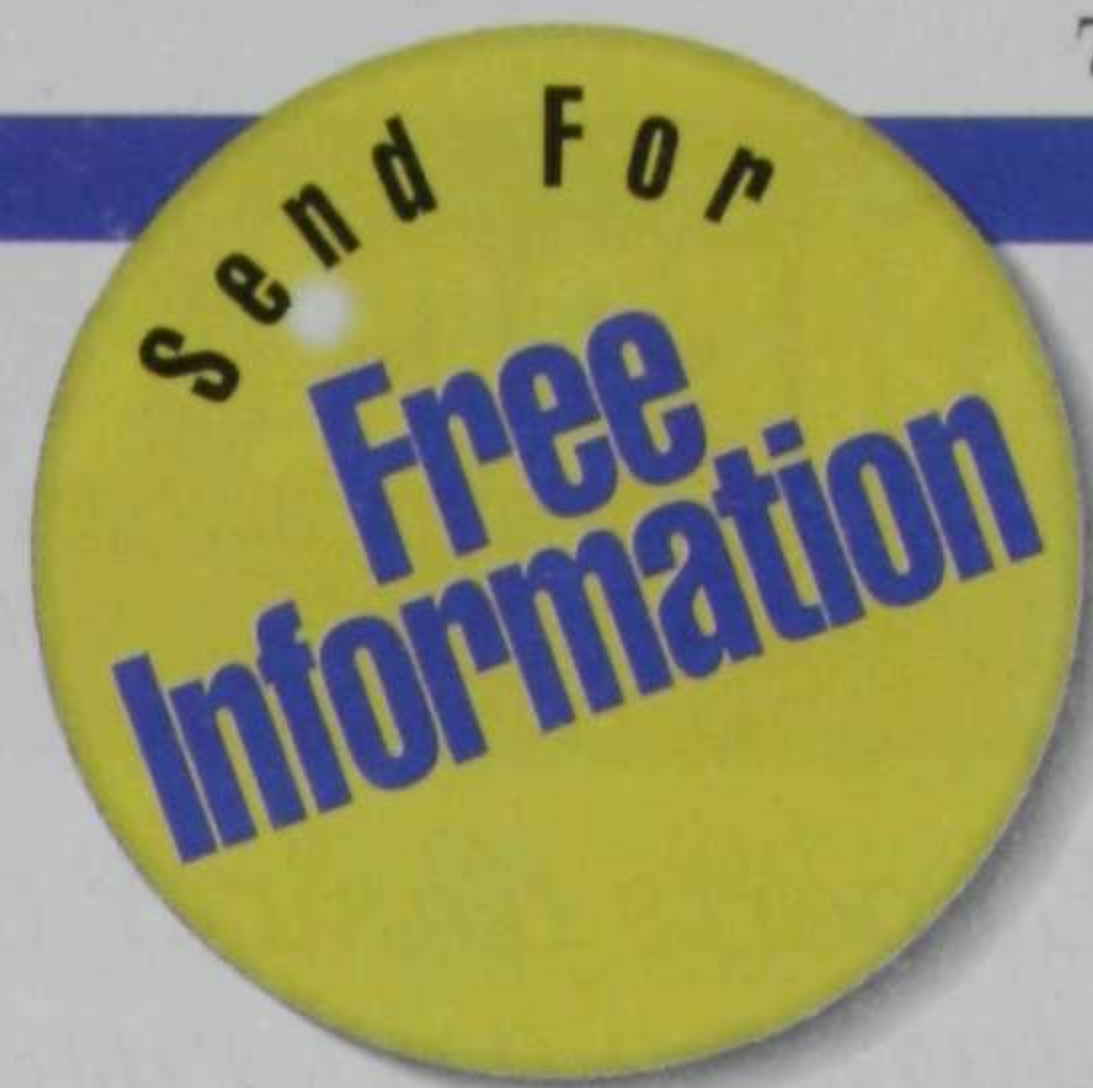
Have the Clinton administration's tax policies been helpful to small firms?

Yes	5%
No	91
Undecided	4

Do you believe a second term for President Clinton would help your business?

Yes	7%
No	91
Undecided	2

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Experts answer our readers' questions about starting and running their businesses.

By Cara Hersh

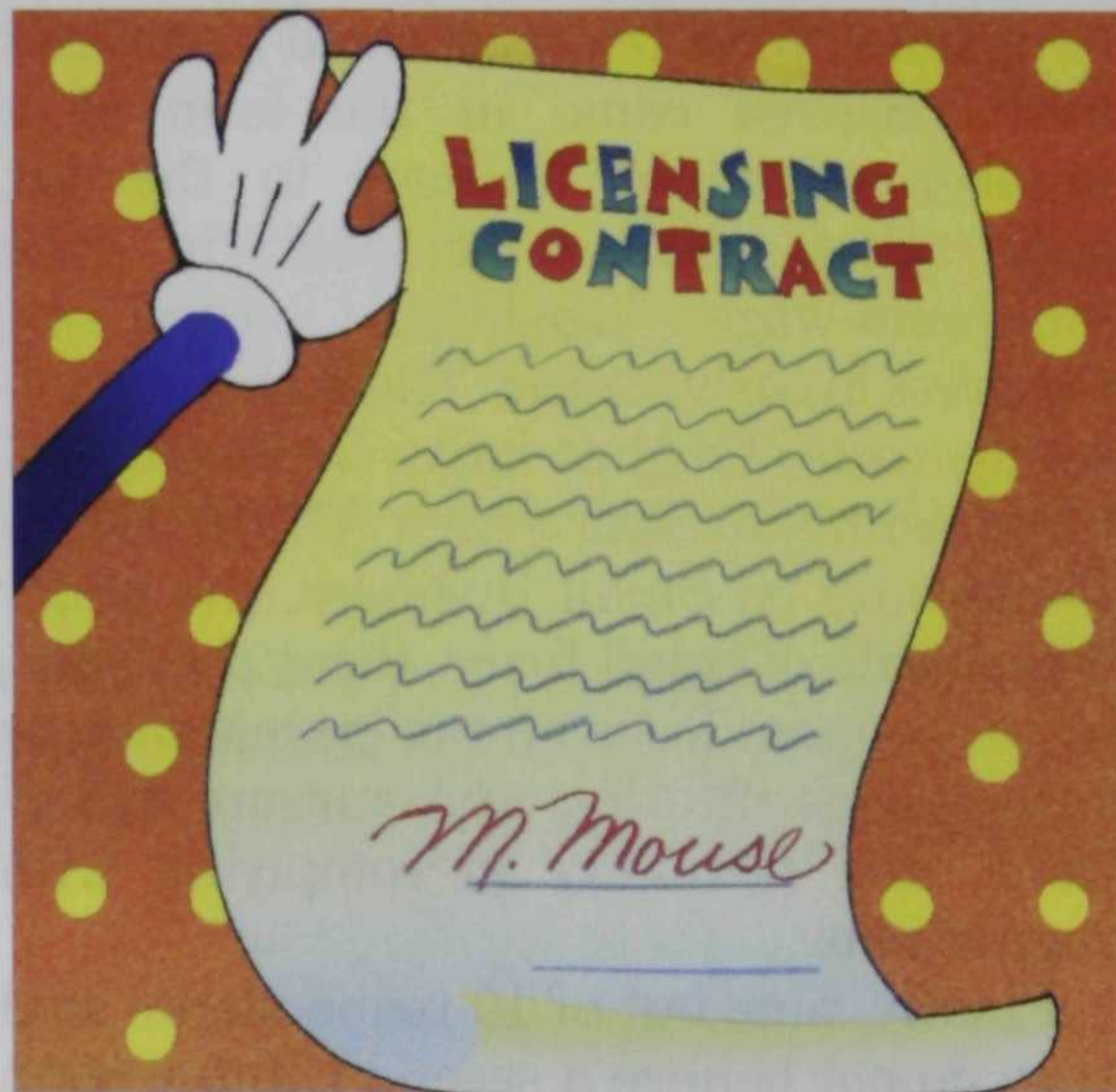
LICENSING

Knowledge For Hire

I own a small business that imports children's backpacks and purses, and I would like to incorporate a licensed picture on my bags. In your August 1995 cover story on product licensing, "Hot Names, Top Dollars," you quoted licensing consultant Beverly Cannady, of Woodland Hills, Calif. How can I find a licensing consultant in my area of the state, and how should I go about selecting one?

K.P., Los Angeles

Licensing consultants can advise you on the availability of licenses, says Murray Altchuler, executive director of the Licensing Industry Merchandisers' Association, based in New York City. They have marketing know-how and can tell you when a specific licensed property is hot, when it should be left alone, and whether you should use, say, Mickey Mouse, Batman, or Barbie for your products. Consultants may also get involved in ne-



ILLUSTRATIONS: MARTHA VAUGHAN

gotiations between the licensor and the applicant for the license.

The consultant you select does not necessarily need prior experience dealing with your product. Rather, a consultant's success depends on connections, contacts, and knowledge of the industry, says Beverly Cannady. For this reason, she suggests that you look for someone who has been es-

tablished and well-connected for at least five years.

Because licensing consultants are not certified and do not have credential requirements, you should verify their expertise by checking references. To avoid any possible conflict of interest, Cannady advises, make sure the consultant does not provide services to any of your competitors.

Consultant fees are negotiable and depend primarily on the kind of services you want. Usually the consultant gets a monthly retainer and/or a fee ranging from 0.5 to 2 percent of your sales of the licensed product.

As for finding a licensing consultant in your area, you are in luck. Altchuler says that although there are not a lot of these specialists, most of them are in the Northeast or California, so you shouldn't have much trouble finding one in Los Angeles.

For a free list of consultants in your area, contact the New York City office of Altchuler's association at (212) 244-1944. ■

GETTING STARTED

Tuning Up

I am interested in setting up a store that sells musical instruments. Where do I go for information about the industry?

P.W., Louisville, Ky.

The National Association of Music Merchants, in Carlsbad, Calif., sells a \$20 book, *So You Want to Open a Music Store*. It contains practical start-up advice. The group also sells for \$55 an annual report on the cost of doing business in the industry. To inquire about these or other resources, call (619) 438-8001.

Doing Your Paperwork

I want to start exporting newsprint and other paper products to India. Could you direct me to a list of paper-product manufacturers in the United States?

M.S.G., Chicago

The Walden-Mott Corp., a publishing company for the paper industry, sells

Walden's ABC Guide, an annual directory of information on paper manufacturers, paper-product makers, sales agents, and merchants in the United States and Canada.

The 1996 edition costs \$120, including shipping and handling.

For more information about this and other paper-industry publications, call Walden-Mott, in Ramsey, N.J., at (201) 818-8630, or send a request by fax to (201) 818-8720.

Check-In Time

My husband and I are interested in building a small motel. We do not know how to begin this project and would like a self-help guide and the name and address of an association that might be able to help.

J.R., Williamsburg, Mich.

The American Hotel & Motel Association sells *A Step-by-Step Approach to Hotel Development*, which contains 12 articles outlining the steps for planning and constructing any type of hotel or motel, from conception to opening. The guide costs

\$37 for nonmembers and \$22 for members, including shipping and handling.

For more information about this and other publications related to the hotel and motel industry, write to the American Hotel & Motel Association, Information Center-Publications, P.O. Box 753, Waldorf, Md. 20604, or call (301) 705-7455. You can also receive the association's publications list and an order form by fax by calling 1-800-701-7725 and asking for Document No. 200. ■

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Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and hometown.

PURCHASING

Getting The Goods

I am trying to obtain inventory for my artificial-flower and arts-and-crafts store. How should I make contacts with distributors and manufacturers? Are trade shows a good way to do this? What do I have to know about attending these events?

N.F., Pembroke Pines, Fla.

To contact manufacturers and distributors in your industry, you can check listings in the Yellow Pages, or you can take a more time-consuming—but probably more effective—route: attend a trade show.

Making your way through aisles of exhibits during one of these events can be daunting, so plan your strategy. Susan Brandt, assistant executive director as well as communications director of the Hobby Industry Association of America, in Elmwood Park, N.J., advises that you follow a list of do's and don'ts to guide you through a show. Before you go, figure out your budget, assess your inventory levels, research product trends in your area, and obtain a list of exhibitors from the event coordinators so you can plan your time.

Because most artificial-flower products are manufactured overseas, expect to purchase this part of your inventory from wholesale distributors rather than manu-



facturers, says Brandt. It may be advantageous to work with distributors rather than manufacturers in obtaining other products as well, she says.

For example, distributors typically offer products in smaller quantities and in greater assortments. Distributors, unlike manufacturers, generally warehouse products from many different manufacturers, and thus they can offer you a larger selec-

tion. They also have a quick turnaround and can have stock shipped faster, Brandt says.

Once you are at the show, talk with as many distributors as possible. Make sure you collect multiple samples of completed hobby projects to use as store displays that will help guide your customers.

Brandt offers some caveats on trade-show techniques. She warns against spending time at exhibits that may interest you personally but have no relation to your retail business. She also cautions that materials on display are often prototypes. Don't plan on big promotions using these products; their actual distribution depends on the level of interest they receive from trade-show attendees.

Most trade events allow only established businesses to attend; but if you are new to retailing, you can attend as a guest of a retailer. For more information on trade shows in your field, contact the Hobby Industry Association of America at (201) 794-1133.

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Cara Hersh is a senior majoring in English at Haverford College, in Haverford, Pa.

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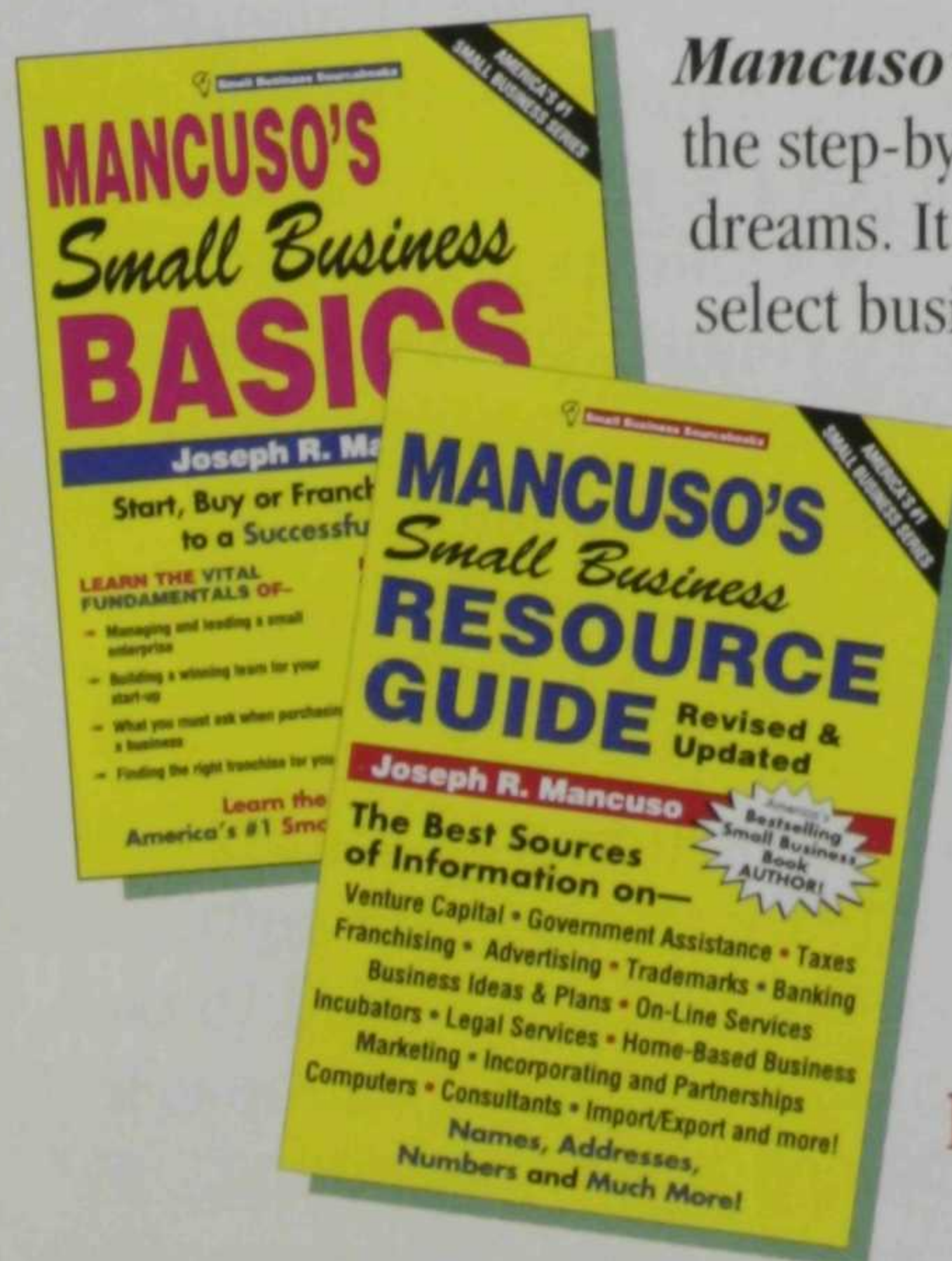
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Editorial

The Importance Of The 1996 Elections

Don Fowler, national chairman of the Democratic National Committee, says the 1996 elections will be the most important since those of 1932.

The latter year was certainly a watershed in American history. Government intrusion into virtually all areas of the economy, originally justified as emergency steps to fight the Depression, became a fundamental philosophy that endured for generations.

While Fowler's remark might charitably be attributed to the New Deal nostalgia that still permeates much Democratic thinking, his electoral comparison is nevertheless off. The most important elections since 1932 were those of 1994, and this year's will be equally crucial.

Two years ago, voters turned control of Congress over to a Republican majority specifically committed to reversing the trend that began in 1932—the unrelenting amassing of power and resources by the central government. This Congress has shifted the fundamental debate from how much more to spend, tax, and regulate to how much to reduce spending, taxation, and regulation.

The basic issue in the 1996 elections is whether this reversal will continue.

Rep. Richard K. Armey, R-Texas, majority leader of the House of Representatives, says one measure of the stakes involved is the \$35 million campaign war chest that organized labor has raised to restore a Democratic majority—and business as usual—to the House.

"The union bosses are going to extremes, and there is good reason for it," Armey told a business audience at the U.S. Chamber of Commerce. "They are energized to buy this election because they know it is quite simply their last chance to maintain their influence over the government of this country [and because] they know their man in the Oval Office is their last hope of maintaining the politics of dependency."

While 44 percent of union members consider themselves conservative, Armey said, "almost 100 percent of their involuntary political contributions go to Democrats." He also noted that despite overwhelming rank-and-file support for a balanced federal budget and tax relief, the "union bosses" oppose such initiatives.

He stated: "Working Americans recognize that the best course for America is a return to the ideals of independence, self-reliance, and voluntary cooperation that made both business and organized labor positive forces in American life. Both Bill Clinton and the union bosses know they have no role to play in an America based on those positive ideals."

Besides organized labor, another formidable group supporting the liberal agenda of President Clinton and his congressional allies, said Armey, consists of the nation's trial lawyers, who were collectively the largest single contributor to the president's 1992 election campaign. That support, the majority leader said, "has netted them Clinton's veto of both [reform of] securities litigation and product-liability reform."

Said Armey: "If the union bosses and trial lawyers succeed in purchasing the Congress and renewing their lease on the White House, it is the working families of this nation who will pay the price. We will have higher taxes and spending. We will have more regulation. We will have

a bankrupt Medicare and Social Security system. We will have more government intrusion and less opportunity. And we will leave a debt for our children and grandchildren to pay for decades to come.

"That is what this election is about."

Many business people are well-aware of what is involved in this November's balloting. For the others, Armey's words should constitute a wake-up call on the need to be fully informed and fully involved in assuring that the era launched two years ago was indeed a new beginning. **NB**



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House Majority Leader Richard K. Armey says union leaders know the 1996 elections represent "their last chance to maintain their influence over the government of this country."

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